FINANCIAL TIMES

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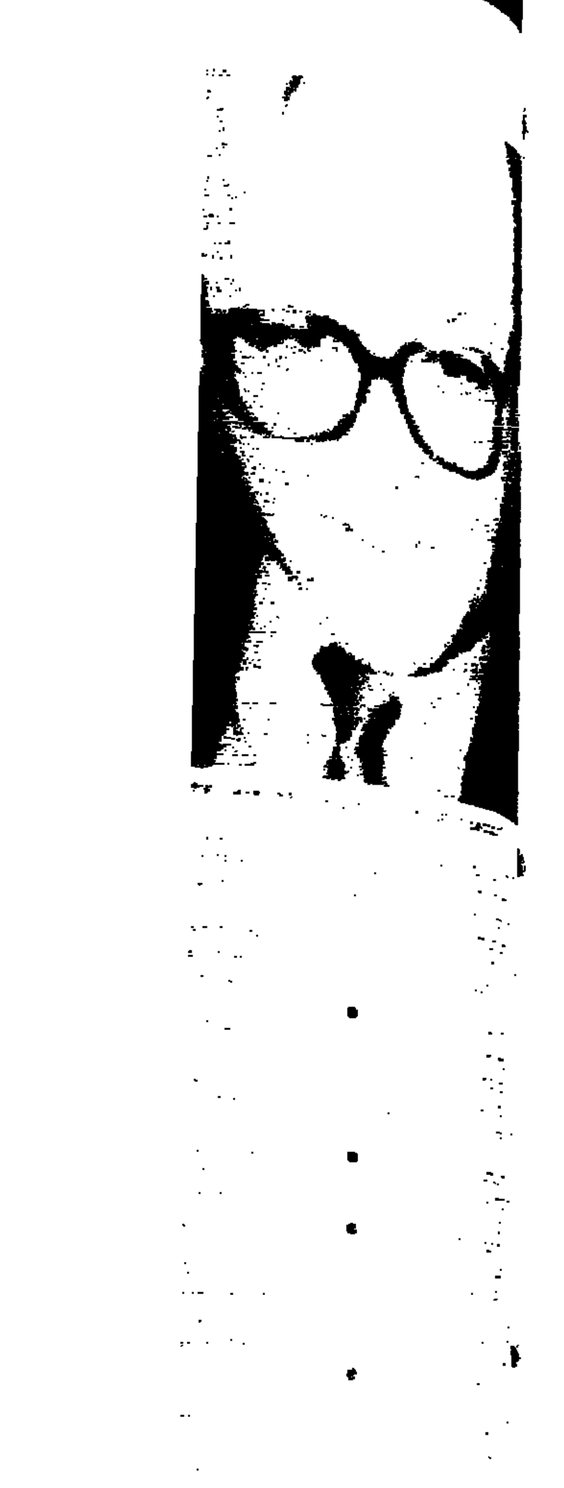

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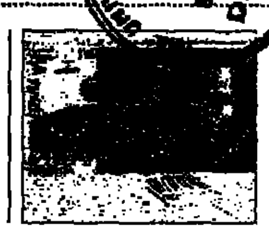

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Money launderers race to beat euro deadline
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Survey: Russia
Rebuilding is a job for the country as a whole
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WORLD NEWS

Yeltsin begins to gain the upper hand in struggle with leftwingers

Russian president Boris Yeltsin's campaign to have Sergei Kiriyenko approved as *prime minister* was boosted by support from Gennady Seleznyev, *Communist speaker of* parliament's lower house and former editor *of Pravda. He urged* deputies to vote for Mr Kiriyenko on Friday, *warning that resistance* could mean the marginalisation of the Duma. **Page 2**

Vaclav Havel critically ill
Czech republic president Vaclav Havel fell critically ill during a holiday in Austria and will undergo an emergency operation for a suspected perforated intestine. **Page 2**

Basque peace hopes
Political agreement in Northern Ireland *has rekindled debate in* Spain on whether there is scope for talks *in the Basque country.* **Page 2**

Top Italian policeman held
Francesco Delfino, head of Italy's Carabinieri police schools, has been held for extortion after allegations that he took thousands of dollars to help free a kidnapped businessman. **Page 2**

Korea talks break down
The first direct talks between North and South Korea in four years have broken down. **Page 14**

Raines quits White House
Franklin Raines, the White House budget director credited with bal*ancing the US government budget*, has surprisingly resigned. **Page 6**

Serbs deny war crimes
Two Bosnian Serb former prison camp commanders told the UN war crimes tribunal in the Hague they did not commit atrocities at the Omarska camp. **Page 3**

EU seeks millennium trade talks
The EU hopes to get Latin American backing for a Millennium Round of trade liberalisation talks, said trade commissioner Sir Leon Brittan. **Page 6**

Prodi seeks budget backing
Italy's sprint to qualify for Emu enters the *home straight* when prime minister Romano Prodi spells out plans for *his* next budget to senior politicians. **Page 3**

Tehran protest snuffed out
Iranian police broke up a demonstration by 2,000 students *demanding the release of Tehran's* jailed mayor Gholamhossein Karbaschi. **Page 8**

Terror arrests in Algeria
Algerian local officials and leaders of government-armed militias have been held on suspicion of involvement in civilian killings. **Page 8**

New threat to Mideast peace
Arab states are likely to declare the Middle East peace process officially dead *within eight weeks if* Israel fails to withdraw its troops from *occupied* land. **Page 8**

France scores World Cup own goal
French tourism minister Michelle Demessine provoked new controversy over this summer's soccer World Cup when she invited ticketless British supporters to visit France during the tournament. **Page 9**

BUSINESS NEWS

US Treasury chief says private sector should bear costs of poor lending

Robert Rubin, US Treasury secretary, said measures to ensure the private sector bears the consequences of poor lending should be *a significant element in strengthen*ing the international monetary system *after Asia's financial crises.* **Page 14; *Japan hits out at IMF, Page 4; Aid minister, Page 10;* Editorial Comment, Page 13**

The French government is to sell a majority stake in CIC, the country's fifth largest banking network, to Credit Mutuel, a mutual, in a deal worth at least FFr13.4bn ($2.2bn). **Page 15; Lex, Page 14**

Volkswagen, the German carmaker, has launched a legal challenge against *record* fines imposed by the European Commission on the company in January. **Page 2**

Ceskoslovenska Obchodni *Banka received guarantees from the Czech* cabinet that it would cover Sk15.6bn ($445m) of loans Slovakia refuses to recognise. **Page 3**

Shell and Mobil are expected to lodge a request to postpone the full development of Peru's hydrocarbons reserves in the south-east*ern jungle* of Camisea. **Page 8**

Oliman, the joint venture between Olivetti and Mannesmann, raised its stake in Omnitel Pronto Italia, Italy's second mobile phone operator, to 40 per cent. **Page 18**

Gillette unveiled a new razor with a *campaign to emphasise its deter*mination to maintain domination of *the global wet shave market.* **Page 15; Lex, Page 14; Gillette targets 30% of market, Page 17**

Kodak, US photographic products company, said that compared with a year ago, first-quarter earnings per share were 18 per cent lower than they would have been without the dollar's rise. **Page 15**

Microsoft said Windows 98, its next generation personal computer operating system program, will make its debut in June with a US price of $109. **Page 16**

Mitsubishi Chemical, Japan's biggest chemical company, took full control of its three joint ventures with Hoechst of Germany producing *polyester film.* **Page 15**

China Telecom (Hong Kong), the listed arm of China's dominant telecoms operator, is set to acquire one of the biggest cellular networks on the mainland. **Page 19**

Balrampur Chini Mills, India's largest *and most profitable sugar group*, is to acquire Tulsipur Sugar, paying *Rs195m ($5m) for a 71 per cent* stake in its rival. **Page 19**

Anglogold, the world's biggest gold mining company being formed out of Anglo American's gold interests, has chosen the president of South Africa's National Union of Mineworkers as one of its independent directors. **Page 15**

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The latest trends and data from more than 50 national markets at a glance
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Tokyo urged to boost system of regulation under Big Bang

European financial companies warn of concerns affecting investor confidence

By Gillian Tett in Tokyo

European financial companies yesterday appealed to the Japanese government to take rapid *measures to improve its* regulatory system as part of the Big Bang reforms.

In a paper submitted to the finance ministry, they said shortcomings in the current system were damaging confidence and "undermining the relative competitiveness of the Japanese market in the global context".

The appeal marked the first time foreign companies had publicly criticised the Japanese government's preparations for Big Bang. The paper was drawn up by the European Business Council, which represents 77 European insurance, banking, securities and asset management companies in Japan.

The criticisms provoked irritation among some Japanese officials, particularly since it came on the eve of a summit of *the Group of Seven* leading industrialised countries in Wash*ington today. "The timing is deli*cate," one official said.

The appeal reflected mounting alarm in Tokyo's foreign finan*cial community about the limited* attention regulatory issues have *received in the Big Bang project*, which officially started on April 1.

In particular, concern has been fuelled recently because the government is due to create a new regulatory body, known as the Financial Supervision Agency, in six weeks.

This body is due to assume control over supervisory issues in place of the finance ministry. Government officials hope this will demonstrate that Japan is improving its regulatory system after a recent wave of financial scandals. However, the finance ministry has been reluctant to take a leading role in establish*ing the new agency, partly* because it has been involved in *some of the scandals itself. It is* still undecided who will head the *new agency*, how it will *operate* or who will staff it.

Andrew Simmonds, head of the Japanese operations of Barclays, the UK banking group, said: "The creation of a new body could be one way to create confidence in Japan's financial system, but we think an opportunity has been missed.

"Starting from June 1 we are all supposed to be complying with this new agency, but we have no details about how it will act ... it is very difficult for foreign investors to plan if you don't know what to expect."

Some government officials have suggested the FSA will have a staff of about 400. However, the European financial companies said this looked too low a figure to tackle all the regulatory problems that could be created by Big Bang, *given* that a smaller country such as the UK has 2,700 staff *covering regulatory matters.*

The EBC added that Japan's *current system of consumer pro*tection was currently too weak to "*redress the consumers' general* lack of confidence in the Japanese *financial* markets". *It also* felt that the finance ministry still *appeared to be using ad-hoc deci*sion making, rather than transparent rules, to make judgments.

Peter Wolton, head of Schroders, the UK financial group, in Tokyo, said: "Big Bang is supposed to be about trying to restore confidence ... but much greater consumer protection is going to be required."

The finance ministry said it was studying the EBC's appeal. An official response could come when the new FSA was set up.

Matsunaga hits at IMF, Page 4

French defence groups begin industry overhaul

By Alexander Nicoll, Defence Correspondent

France took an important step towards the reorganisation of its defence industry yesterday with an agreement on terms for expansion of Thomson CSF, the electronics group, and a reduction of the state's holding in the company to less than a majority.

The five companies involved in the group said: "This vast reorganisation of business in the field of commercial and defence electronics, as well as the satellite field, will create a large world group open to European alliances and industrial partnerships."

The socialist government of Lionel Jospin, the prime minister, *last year rejected wholesale* privatisation of Thomson CSF *and opted instead to* use the group as a base for the creation *of a national* industrial *pillar* in which the government would *hold a reduced stake.*

Under the agreement *announced yesterday*, the *public* sector stake will be 47 per cent *compared with 58 per cent now.* The future holding will be made up *of 43 per cent* held by *Thom*son SA and 4 per cent by Aerospatiale, the *state*-owned *aircraft* maker. The other companies involved are Alcatel Alsthom, Dassault Electronique and Dassault Industries.

Although critics of last year's decision dismissed it as a "Franco-French" solution which ignored the need to consolidate defence industries across Europe, Paris has since made clear it sees the restructuring as a first step and wants French arms manufacturers to participate in Europe-wide rationalisation.

GEC of the UK is often seen as a natural partner for Thomson CSF. However, the large French state holdings in the defence industry are a barrier for companies such as British Aerospace, which favour the formation of a Europe-wide aerospace and defence electronics group.

Under yesterday's agreement, Thomson CSF will acquire the commercial and defence electronics activities of Alcatel Alsthom, the *telecommunications* company, which in turn will take a *16.36* per cent *stake in Thomson* CSF.

Alcatel and Thomson are to forge a strategic partnership *under which they will co-operate* on research and development and *provide access to each other's* industrial activities to achieve *synergies* between civil and military electronic systems.

The expanded group will also take on the electronics interests *of Dassault Electronique.* In return Dassault Industries will *take 6 per cent of Thomson CSF*, which will make an offer for the *39 per cent of Dassault Electroni*que shares held by the public.

The satellite interests of Alcatel, Aerospatiale and Thomson CSF will be grouped into a new venture in which Alcatel will have 51 per cent and Thomson-CSF 49 per cent. Aerospatiale will receive FFr1.25bn ($205m) from Thomson CSF as payment for transfer to the new venture of its minority holdings in various space companies.

Lex, Page 14

Australian docks protest reaches flashpoint

A protesting Sydney dockside worker struggles with police yesterday, the seventh day of an industrial showdown between non-union stevedores and the Maritime Union of Australia. The 1,400-strong unionised workforce at the Port Botany shipping terminal was sacked last week. Picture AP

Sweden to cut tobacco taxes in attempt to stem smuggling

By Greg McIvor in Stockholm

Sweden yesterday announced a surprise 27 per cent cut in excise *taxes on tobacco products*, bucking the international trend *towards higher tobacco taxes to* reduce consumption.

*The Social Democratic govern*ment said the measure, contained *in its outline budget for 1999*, was necessary to stem a surge in the *smuggling of cigarettes, mainly* from eastern Europe.

Predicting that Sweden would achieve a budget surplus this year for the first time since 1990, Erik Asbrink, finance minister, signalled little loosening of the government's tight fiscal stance just five months ahead of a general election.

The most notable spending increase was SKr4bn ($509m) annually for education and welfare services. However, this had been expected by financial markets and will fall within public spending limits for 1998 and 1999.

In an upbeat assessment of economic prospects, Mr Asbrink forecast that annual growth in gross domestic product would average 3 per cent between 1998 and 2001. The budget surplus would rise from 0.8 per cent of GDP in 1998 *to 3.5* per cent in 2001.

The government would meet its target of reducing the official *measurement of unemployment* from 6.7 per cent to 4 per cent by *the end of 2000, he added.*

Financial markets reacted *favourably to the budget, which* contained spending proposals for *1999 to 2001. The krona strength*ened against the D-Mark and dollar and long-term bond *yields* eased marginally.

On tobacco, Mr Asbrink said Sweden – where the excise tax on cigarettes is among the highest in the European Union – was being increasingly targeted by traffickers.

"If we remain passive I am afraid that the smugglers will take over more and more," he said. Reducing tobacco tax would make it less profitable to import contraband goods.

The customary indexing of tobacco and alcohol taxes to inflation would be abolished, Mr Asbrink said.

Government officials said the tax reduction would cut the cost *of a packet of 20 cigarettes* from SKr44.50 – SKr33.82 of which is tax – *by up to SKr7, assuming* retailers kept their margins.

The aim of the cut, applicable from August 1, is to reduce prices *to levels in neighbouring Den*mark, where a packet costs about SKr34. *Prices in Germany* and many other European countries *are considerably lower.*

Anti-smoking groups expressed *dismay* at the proposal, saying the tax reduction would lead to increased smoking. *They accused* the government of exaggerating the problem, quoting an independent report that suggested con*traband cigarettes* accounted for just seven days' national consumption in 1996.

Under previously announced government plans, customs officials are to be given greater resources and powers to intercept suspect cargoes.

Editorial Comment, Page 13

Record FT newspaper sales

Worldwide sales of the Financial Times hit another record in March, reaching a daily average of 359,458, a 15.5 per cent increase on March 1997. US sales were up 57 per cent, Asian sales 54 per cent, continental European sales 9 per cent, and UK sales 8.5 per cent. The FT was the fastest-growing British newspaper.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9096.25	(+63.96)
NASDAQ Composite	1840.61	(+15.86)
Europe and Far East		
CAC40	3687.66	(-26.82)
DAX	5374.76	(+57.59)
FTSE 100	6104.1	(-1.4)
Nikkei	16,277.32	(-40.26)
US Lunchtime RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.130%	
Long Bond	103½	
Yield	5.90%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(7⅞%)
UK: 10 yr Gilt	111.0625	(110.072)
France: 10 yr OAT	104.61	(104.50)
Germany: 10 yr Bond	108.28	(108.27)
Japan: 10 yr JGB	109.58	(109.60)
NORTH SEA OIL (Argus)		
Brent Dated	$13.13	(13.44)

GOLD		
New York: Comex		
(Apr)	$307.9	(310.8)
London:		
	$306.95	(308.65)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6637	
DM	1.80345	
FFr	6.0510	
SFr	1.4927	
Y	129.475	
London:		
£	1.6850	(1.6745)
DM	1.8037	(1.8178)
FFr	6.0465	(6.0920)
SFr	1.4917	(1.5165)
Y	129.43	(130.075)
Tokyo Close		Y 129.55
Sterling		
DM	3.0392	(3.0435)

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Hungary	[illegible]	Iceland	[illegible]	Italy	[illegible]
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Switzerland	[illegible]	Tunisia	[illegible]	UAE	[illegible]

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WORLD NEWS

EUROPE

Yeltsin wins key backer for Kiriyenko

By John Thornhill in Moscow

President Boris Yeltsin yesterday claimed a breakthrough in his campaign to have Sergei Kiriyenko approved as prime minister after securing the support of the influential Communist speaker of the lower house of parliament.

After meeting Mr Yeltsin yesterday, Gennady Seleznyev urged his colleagues in the Duma to vote for Mr Kiriyenko on Friday, warning that continued resistance to his candidacy could result in the marginalisation of Russia's legislature.

"The Duma's fate is 1,000 times more important to me than the fate of Kiriyenko," Mr Seleznyev said. "We must support Kiriyenko's candidacy."

As a former editor of the Pravda newspaper, Mr Seleznyev carries great weight within the Communist faction, which has until now been vehemently opposed to Mr Kiriyenko's nomination.

But the Communist party appears reluctant to force the dissolution of parliament that would automatically result if the Duma rejected Mr Yeltsin's prime ministerial nominee three times.

Mr Seleznyev's volte-face suggests the tide of parliamentary opinion may finally be turning in Mr Kiriyenko's favour after his initial rejection in a vote last Friday.

But passions are still running high after Mr Yeltsin's shock decision last month to sack Victor Chernomyrdin as prime minister and instal a politically unknown nominee in his place.

The majority of the parliamentary leaders yesterday signed a statement urging Mr Yeltsin to reconsider his move. They warned that dissolution of the Duma would plunge the country into political chaos.

The statement said: "Having sacked the government of Victor Chernomyrdin, President Boris Yeltsin is – under threat of dissolution – proposing a little known candidate as head of the government who does not have significant support of the influential economic and political forces in Russia or serious experience of practical work."

In an attempt to appease his opponents, Mr Kiriyenko promised that if confirmed in his post he would regularly consult the speakers of both houses of parliament about all important decisions concerning industrial, social and budgetary policy.

He also attacked the work of the interior ministry, saying he would ensure a higher level of professionalism in the fight against crime. Mr Kiriyenko said the police were failing to do their job properly in spite of having more officers than in Soviet times.

"We cannot solve the problem of crime with quantity but only with quality," he said. According to Mr Seleznyev, Mr Yeltsin said it was time for Russia's older leaders to make way for a new generation of young, energetic technocrats and promised he would not stand again for the presidency in 2000.

Russian survey, separate section

Turkey claims 'victory' over PKK

By Kelly Couturier in Ankara

The Turkish government says it has virtually won its 14-month fight against the separatist Kurdistan Workers' party (PKK), after its capture this week of a former Kurdish rebel commander in a secret operation in northern Iraq.

Semdin Sakik, nicknamed "Fingerless Zeki" after losing a thumb while firing a rocket, was considered the PKK's second highest ranking commander and until recently led rebel forces inside Turkey.

He had been hunted for years by government forces, who blamed him for leading a series of attacks, including a 1993 PKK assault on unarmed soldiers which left 37 dead.

Analysts said the arrest of Mr Sakik, who defected from the PKK last month, highlighted the internal strife crippling the guerrilla organisation.

The PKK has been marginalised by Turkish forces, who in recent years have staged frequent large-scale assaults both in south-eastern Turkey as well as over the border in northern Iraq.

Isolated clashes continue, however, most recently in the Mediterranean tourist province of Antalya, located outside the main centre of PKK activity.

During his interrogation, Mr Sakik reportedly said the rebels had been planning attacks against the tourism sector, which brought in over $7bn last year.

With the PKK insurgency now limited to what one official termed a "manageable level of violence", military leaders are urging the government to begin repairing the damage to the infrastructure and economy of the south-eastern Turkish provinces, the scene of the conflict.

An estimated 29,000 people have lost their lives in the war and tens of thousands have lost their homes and livelihood.

Last month Mr Sakik surrendered to an Iraqi Kurdish faction, the Kurdistan Democratic party (KDP), which is co-operating with Turkish forces to root out the PKK in northern Iraq.

The Turkish operation to capture Mr Sakik was mounted in secrecy – government officials acknowledged they were not informed before the capture – after the KDP refused to turn over Mr Sakik, reportedly out of concern this would trigger more violence.

Newspapers quoted officials as saying the guerrilla leader would be prosecuted for treason or separatism, both punishable by death.

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Spotlight on Basques after Ulster accord

By David White in Madrid

The political agreement over Northern Ireland has rekindled a heated debate in Spain on whether there is room for negotiation in the Basque country, western Europe's other main focus of terrorist violence.

Tony Blair, British prime minister, off on holiday in southern Spain following last Friday's historic deal in Belfast, had to fend off reporters' questions about a possible precedent for the Basques.

Fully briefed about the Spanish government's sensitivity on the matter, he declined to voice an opinion. They were different situations and different countries. He thought the Spanish were quite capable of sorting out their problem by themselves.

The issue of whether or not to consider talks with Herri Batasuna, political wing of the illegal Eta organisation and the Basque counterpart of Sinn Fèin, splits Spanish parties into two camps.

Both the ruling centre-right Popular party and the opposition Socialists are firmly against negotiating in current circumstances. But the other main parties represented in the Basque region, from Communists to moderate Basque nationalists, favour a "dialogue" to try to end the violence, which has claimed about 800 lives since the late 1960s.

An attempt by José Antonio Ardanza, Basque regional president, to pave the way for open-ended negotiations, subject to an indefinite Eta ceasefire, failed to win consensus in an inter-party meeting last month.

While the Spanish government greeted the UK-Irish breakthrough as "a triumph of reason over violence", both officials and the main media were at pains to underline differences between the Basque and Northern Irish conflicts – especially the fact that the Basque region already enjoys a wide measure of self-rule.

Echoing the official view of Eta as a "mafia", Rodrigo Rato, finance minister and a deputy premier, said Eta violence was "something else" and did not have political roots.

Joaquín Almunia, Socialist leader, also rejected comparisons with Northern Ireland, describing the Basque extremists as a "fanatical minority".

There are, nonetheless, some distinct similarities. In both regions the present phase of violence has lasted almost 30 years. The IRA and Eta are both nationalist organisations which have survived a transition between generations, unlike other recent European terrorist phenomena, such as Germany's Red Army Faction.

Their political wings both command a significant minority vote, with Herri Batasuna winning over 16 per cent in the last Basque regional elections.

On the other hand, there is no sectarian divide in the Basque country.

Officials say that Eta is trying to "Ulsterise" the region by using terrorist attacks and street violence to create a civil confrontation.

They argue that Eta, despite its demand for a negotiated settlement, has shown no genuine interest in peace.

The organisation has recently focused its attacks on Popular party members, killing four of its local councillors since last summer and provoking large-scale protests across Spain.

As fate would have it, news of the Northern Ireland deal came on the weekend of Aberri Eguna – Basque Fatherland Day – when Basque nationalists like to be provocative. The mainstream Basque Nationalist Party (PNV), which provides parliamentary support for José María Aznar's Spanish government, said Mr Aznar should show Mr Blair's flexibility.

A bus burns after being set alight by radical Basque youths in the northern Basque town of San Sebastian in 1996. Street vandalism has been a common phenomenon in the Basque provinces, where the separatist group Eta is fighting for an independent state. Inset: A hooded supporter of Eta gestures during an election rally in San Sebastian for Herri Batasuna, Eta's political wing AP

Spain's 'black money' looks for a white knight

Holders of undeclared fortunes are looking for ways to legitimise their cash ahead of the peseta's demise. **David White** reports

Preparing for Emu

Win a lottery in Spain and you may well receive a discreet approach from someone willing to pay more than the winnings in exchange for the lucky ticket.

A confidence trick? No, just a Spanish practice, which anecdotal evidence suggests has been on the rise as holders of "black money" look for ways of legitimising some of their undeclared fortunes ahead of the European single currency.

The state lottery office said it knew nothing about this practice. "We just pay the right amount to the person who brings the winning ticket," it said.

But the lottery ploy is common enough for the government to have toyed with the idea of taxing winnings in order to stop it.

And in regions such as Valencia, where the underground economy is notorious, there are signs that people are becoming increasingly fidgety about large cash savings in pesetas, a currency which will become obsolete just over four years from now with the introduction of the euro.

As the countdown for the peseta's demise begins, the power of "black money" is coming to the surface. It is one of the factors behind a recovery in sales of land and property, always one of the main sources and main refuges of undeclared income.

By definition, undeclared funds are practically impossible to measure, but it is widely thought there may be Pta3,000bn-Pta4,000bn ($19bn-$25bn) sloshing around in cash on the hidden side of Spain's economy. Jorge Hay, a general manager at the BCH group and a leading expert on the transition to the single currency, thought this was quite plausible.

"You just have to look at the amount of money that's in Pta10,000 notes," he said. This top banknote denomination makes up just over half the total of pesetas in circulation, according to Bank of Spain statistics – Pta4,684bn ($30bn) worth at the end of last year.

"You don't see it in the streets. Nobody uses it. It is assumed to be held as black money."

Spain is among the European Union countries with the biggest underground economy, alongside other southern members.

The difficulty of measuring the phenomenon was shown in the initial version of a European Commission report this month, which put it at anything between 10 and 23 per cent of Spain's economy, or Pta8,000bn-Pta18,000bn a year. It exists in commerce, agriculture, tourism and small-company industries.

In Spain's shoe capital of Elche, south of Alicante, trade unionists say black market labour may account for up to 45 per cent of production.

A survey by the government's Centre for Sociological Research late last year suggested there might be another 3m people working in Spain in addition to the roughly 13m declared as being employed.

A 1980s study by Santos Ruesga Benito, a Madrid economics professor, found 31 different terms in Spanish for the underground economy – including "submerged", "informal", "residual", "twilight" and the much used "Caja B" or "B register", referring to funds that do not appear in a business's accounts.

But the concept of "black money" covers a variety of sins. Mixed in with other undeclared earnings are the proceeds of drug trafficking, cigarette smuggling, terrorist extortion and organised crime.

A special unit attached to the Bank of Spain, known as the "executive service", brings together a team of central bank staff, tax inspectors and police investigating the laundering of illegal funds, mainly by collating information from banks about suspicious operations.

Spain is understood to be currently the subject of an examination by the Organisation for Economic Co-operation and Development's Financial Action Task Force, the 26-member body set up to strengthen co-operation against money laundering.

A government supervisory official said European Union countries had to act together, since money could easily be transported through today's open internal borders.

"If there are special measures or exceptional identification requirements in one state and not another, it is logical to think this money will go to a country that does not apply the system."

Experts point out that holders of "black" money have ample time to change their pesetas little by little into other currencies such as dollars or Swiss francs, without waiting for the change-over to euro notes and coins in the first half of 2002.

They have to steer past the controls, however. Banks are obliged to ask identification for currency exchanges over Pta500,000. For small exchange bureaux, not subject to the same internal supervision as banks, the limit for anonymity is Pta30,000.

Identification is also required for other operations, such as changing big banknotes for smaller denominations, if the sum exceeds Pta2.5m. And transactions of over Pta5m made in cash, or by people holding residence in a tax haven, have to be reported on a monthly basis, along with other movements judged "unusual".

Tight information requirements are also set for casinos, jewelleries, and dealers in art, antiques, stamps and coins – favourite channels for "black" wealth.

Ministers have made clear that the government will not turn a blind eye by granting a tax amnesty to ease the conversion into euros. Officials say special measures to trap offenders are not ruled out, although hard to enforce.

And Mr Hay at BCH questioned whether a crackdown would be in the government's interests. "They want the process to go smoothly. It would be very untimely."

VW challenges record fine by Brussels

By Emma Tucker in Brussels

Volkswagen, the German carmaker, has launched a counter-attack against the European Commission with a legal challenge against record fines imposed on the company in January.

In a suit filed to the European Court of First Instance (CFI) just before the Easter weekend, VW denies that its Italian dealers adopted anti-competitive sales practices and argues that the Commission did not have the right to fine the company Ecu102m ($111m).

The fine – the highest ever imposed on a single company – capped a two-year Commission investigation into allegations that Italian dealers refused to sell cars to buyers from outside Italy, contravening EU competition rules.

The Court is unlikely to rule on the case until some time next year but even then procedures could be prolonged if the losing party appeals to the European Court of Justice.

If the Court finds serious procedural errors in the way the Commission conducted its case it could annul the decision altogether.

It did this recently in a case involving a PVC cartel, the participants of which had been heavily fined by the Commission.

Otherwise, the CFI could reduce the level of the fine. The Commission said yesterday it was confident its decision would be upheld.

Meanwhile, VW will have to pay the fine this month as it has not applied for interim measures suspending payment until all court proceedings are over.

It is not too late to ask for the decision to be suspended, but VW would have to prove that the fine, if paid now, would cause lasting damage.

As the fine could always be paid back after the court case, it would struggle to win this argument.

During its investigation into VW's sales practices in Italy, the Commission uncovered evidence that VW was ordering its dealers not to sell outside their allocated territory.

This behaviour contravened the terms of a special agreement between the Commission and the car industry that grants car manufacturers exemption from certain anti-trust rules. In particular, it allows them exclusive distribution rights.

However, the special status was granted only on condition that dealers be allowed to sell vehicles to customers from outside their allotted territory.

In the Volkswagen case, Italian dealers turned away customers from Austria who had crossed the border in search of more attractive prices.

NEWS DIGEST

HAVEL CRITICALLY ILL ON VACATION

Czech president faces emergency operation

Vaclav Havel, president of the Czech republic, has fallen critically ill during a vacation in Austria and will undergo an emergency operation. Mr Havel, 61, was rushed to the Innsbruck University Clinic yesterday suffering from a suspected perforated colon.

"Havel is in a very serious condition," said Professor Ernst Bodner, chairman of the hospital's surgery department. "He is critically ill and must be operated on as an emergency measure." Dr Ilja Kotik, Mr Havel's personal physician, was travelling to Austria to tend his patient.

Mr Havel has been hospitalised on several occasions in the past 18 months. In December 1996, he had one-third of his right lung and a malignant tumour removed during surgery for lung cancer. During that treatment, doctors had to perform a tracheotomy to help him breathe.

Mr Havel had throat surgery in February to correct problems resulting from the tracheotomy. Havel also spent two weeks in hospital last November with pneumonia. AP, Prague

ITALIAN CORRUPTION

Officer charged with extortion

One of Italy's most decorated paramilitary police officers was arrested yesterday on charges of extortion after allegations that he pocketed thousands of dollars for helping secure the release of a kidnapped businessman.

Francesco Delfino, national head of the Carabinieri police schools, is suspected of taking part of the money which the family of Giuseppe Soffiantini paid him to find a go-between to negotiate the entrepreneur's release.

Giordano Alghisi, a businessman alleged to have acted as an intermediary between Mr Delfino and the family, was also arrested yesterday, Italian media reported.

Mr Alghisi was a former associate of Mr Soffiantini, who was freed in February after eight months in captivity during which his Sardinian captors cut off parts of both his ears and sent them to his family along with demands for L10bn ($5.5m). His family paid the kidnappers L5bn and Mr Soffiantini was freed a week later.

Mr Delfino, 60, has been a leading figure in the state's fight against the Mafia. He started his career in his native Calabria, cracking down on gangs of the local mob, the N'Dragheta. He was also a key figure in the 1993 arrest of Mafia "boss of bosses" Toto Riina. Reuters, Rome

LATVIA-RUSSIA ROW

Citizenship rules unchanged

Despite threats of economic sanctions from Russia and increasing pressure from the west as well as at home, Latvian politicians yesterday failed to agree on changes to the country's controversial citizenship laws. Over the past six weeks, Russia has repeatedly lashed out at its Baltic neighbour, charging that Latvia discriminates against its large ethnic Russian population.

About 688,000 of Latvia's 2.6m residents do not have citizenship, some 450,000 of them ethnic Russians. Russia has prepared proposed economic sanctions unless Latvia makes its citizenship law more liberal. The announcement that the changes would be discussed had been seen as an indication that Latvia was making moves that could cool the crisis.

A western diplomat said the west was trying to convince Russia the conflict "is more than just a matter of bilateral relations" but he believed there was little chance Russia's position would relax in the near term. Reuters, Riga

GERMAN ART LOSSES

Reluctant Yeltsin signs law

Russian President Boris Yeltsin yesterday signed a controversial law barring the return of art works seized from Germany but will nevertheless challenge it in the Constitutional Court. Mr Yeltsin had said he would obey an earlier court ruling and sign the law before delivering his protest. The law effectively blocks the return of art treasures seized by the Red Army during and after the second world war.

Sergei Shakhrai, a member of the presidential staff, said Mr Yeltsin had decided to contest the law because of what he called violations of parliamentary procedure during its approval by parliament.

Parliament and most Russians regard the art works as compensation for losses suffered during the war in which more than 20m citizens died. But Mr Yeltsin is keen to build close ties with Germany, the biggest investor in Russia's economy. He also says the new law complicates Moscow's efforts to return Russian art held abroad. Reuters, Moscow

HUNGARIAN TENDER

Bidders demand review

The losing bidders for a majority stake in Hungary's seven newspaper distribution companies are demanding a review of the tender and have threatened to set up their own distribution service. Hungarian Publishers Asset Management, a consortium which includes German-owned Axel Springer, a media subsidiary of Postabank and the publishers of Hungary's most important dailies, strongly criticised the Hungarian Post Office for what it termed a hasty decision to declare a rival consortium as the tender winners.

The winning consortium is headed by the French Hachette Distribution Services, and includes 18 smaller domestic publishers. It offered Ft4.4bn ($21m) for an 82 per cent stake in the distributors, which had a total income of Ft21bn in 1997. Hungarian Publishers bid only Ft2.8bn.

Hungarian Publishers said prices would inevitably rise as a result of the "exceptionally high" bid price. The Hungarian Post Office said the tender evaluation was in order and any decision on a review must be taken by the ministry of transport and telecommunications. Kester Eddy, Budapest

BLACK SEA FLEET

Russia, Ukraine hold exercises

Russia and Ukraine yesterday launched large-scale military exercises that will bring the divided remnants of the former Soviet Black Sea fleet together for naval and land drills. The Russian Black Sea fleet and the Ukrainian navy are each holding eight-day exercises, and their ships and personnel will join for some of the drills in the Black Sea and on Ukraine's Crimean peninsula.

Russia and Ukraine signed agreements last spring to end a long-standing dispute over the former Soviet Black Sea fleet. The deals allow the Russian fleet to remain based on Crimea for 20 years. Last summer, Ukraine hosted ships from the US and other nations in a Nato-related peacekeeping exercise based in Crimea that angered the Kremlin and a vocal portion of the peninsula's ethnic Russian majority.

While tensions between Russia and Ukraine remain over Crimea and the division of the Black Sea fleet, they have eased since the deals were signed and amid efforts by the leaders of Russia and Ukraine to improve often difficult relations. AP, Kiev

هكذا من الأصل

Schröder revels in Kohl's troubles

By Ralph Atkins in Bonn and Frederick Stüdemann in Berlin

Rarely downbeat, Gerhard Schröder is likely to be particularly ebullient when he is confirmed this Friday as the German opposition Social Democrats' candidate for chancellor in September's federal election.

While Mr Schröder knows that his coronation at a Leipzig rally will be overwhelming (there is no opponent), he is enjoying the sight of the Bonn governing coalition buckling.

For Chancellor Helmut Kohl, the Easter parliamentary recess has been interrupted by spats over policies and personalities which, individually, may be controllable but collectively add to the difficulties facing his centre-right coalition of Christian Democrats, the Bavarian Christian Social Union (CSU) and the liberal Free Democrat party. Mr Kohl is struggling to hold back a widespread feeling that his supporters' solidarity is eroding ahead of a fundamental political realignment this autumn.

Polls suggest Mr Schröder's SPD is consolidating its support, increasing the likelihood that it will unseat Mr Kohl either in coalition with the Greens or as part of a "grand coalition" with a rump Christian Democratic party. According to Forsa, the polling organisation, Mr Schröder's pragmatic left policies and claim on Germany's "new political centre" are winning over undecided voters who at the same stage in previous elections have tended towards Mr Kohl's CDU.

A month after Mr Schröder's triumphant re-election as prime minister of Lower Saxony and five months ahead of the federal election, the SPD has a 10 percentage point advantage in national polls. The CDU's plight is particularly pronounced in eastern Germany, which Mr Kohl united with the west in 1990. Less than two weeks before state elections in Saxony-Anhalt on April 26, support for Mr Kohl's party has fallen to 24 per cent in the east as a whole – the same as the Party of Democratic Socialism, the successor to East Germany's communists. In the 1994 federal election, the CDU took 38.5 per cent.

The CDU is suffering from a perception in the east that it is too western-orientated and from its simplistic use of the fear of communism to bash the SPD, which is in minority government in Saxony-Anhalt thanks to "tolerance" from the PDS. Easterners feelings about their recent past have proved more complex than Bonn election tacticians have realised.

A bad result for the CDU in Saxony-Anhalt would not only mean more favourable headlines for Mr Schröder. It would indicate a further erosion of the Christian Democrats national standing.and

But if the coalition felt the time was right to rally together, it has been hardly obvious in the past few days. First, there was an acrimonious and avoidable row over a draft election programme published by Wolfgang Schäuble, the CDU parliamentary leader nominated by Mr Kohl as his desired successor.

A proposal to increase energy taxes not only took the sting out of any onslaught against similar, albeit more drastic, ideas floated by the Greens. The proposal incensed Bavaria's CSU, which objected fiercely to the idea and denied emphatically Mr Schäuble's claim that he was only building on past joint statements.

After a week of bickering, Mr Kohl and Theo Waigel, Bonn finance minister and CSU leader, issued a joint statement backing energy tax reform only within the context of the European Union – essentially what Mr Schäuble had advocated.

The squabbling meant the impact of the carefully drafted programme, which signalled important departures for the CDU, was lost.

There were personal as well as political rifts. The CSU took exception to Mr Schäuble's alleged presumptuousness in playing the role of Mr Kohl's "crown prince". Ingo Friedrich, deputy CSU chairman, insisted when it came to choosing successors to Mr Kohl that his party would have a crucial say.

Then Edmund Stoiber, the independent-minded CSU prime minister of Bavaria, lobbed a pot-shot at the FDP, junior member of the Bonn coalition.

By calling for the creation of a European affairs minister, answerable directly to the chancellor, Mr Stoiber once again slighted Klaus Kinkel, Germany's FDP foreign minister, who is often at odds with Mr Stoiber. Mr Kinkel retorted with a curt warning that Europe was "too precious for Germany to be buried by election manoeuvring." The FDP yesterday accused the CSU of being fixated only on Bavaria's state elections on September 13.

But Mr Stoiber may have been taking a wider view by recognising the federal election on September 27 might usher in a new political order. A Bonn coalition of Social Democrats and Greens would be unique in German history. The Christian Democrats and the CSU would be thrown into opposition, along with the Free Democrats, traditional "king makers" in Bonn coalition.

Worse, perhaps, from the CSU's point of view, a "grand coalition" of Christian Democrats and Social Democrats would marginalise Bavaria's influence in federal politics. Mr Kohl has repeatedly insisted he would not be part of any grand coalition; the CSU's Mr Waigel warned over Easter that such a move would be "collective political suicide" for the CDU/CSU. But coalition leaders over the past weeks have scarcely been more constructive.

Election protagonists from left: Edmund Stoiber, Theo Waigel, Wolfgang Schäuble, Helmut Kohl and below, Gerhard Schröder Reuters

Observer, Page 13

Prague moves to ease bank's loan problem

By Robert Anderson in Prague

The Czech cabinet yesterday shored up its banking privatisation programme by guaranteeing to Ceskoslovenska Obchodni Banka (CSOB) that it would cover almost Sk15.6bn ($445m) of loans that Slovakia refuses to recognise.

The loans – and Slovakia's stakes in CSOB and Komercni Banka, the biggest Czech bank – have become entangled in the bitter row over the division of assets of the former Czechoslovakia.

After the countries split in 1993, Slovakia, whose central bank owns 24 per cent of CSOB, took over Sk9bn of its non-performing loans and guarantees to communist-era trade companies for exports to developing countries.

However in 1995, Slovenska Inkasni, the Slovak finance ministry's debt collection unit, told CSOB it was unable to make further instalments. As state relations worsened, the Slovak government insisted it had not been given proof of its full liabilities.

In April 1997 CSOB declared the debt due – now estimated with interest at Sk15.6bn – and filed suit in the International Court for Settlement of Investment Disputes in Washington. "The Slovak government budget is not a self-service supermarket," Sergej Kozlik, deputy prime minister, said last week.

The arbitration is unlikely to finish before 2000 and the bank has begun to put aside reserves in case it is unsuccessful.

Now it has received a guarantee from the Czech cabinet for 90 per cent of this debt, it is likely to reduce these.

CSOB says Slovakia is more willing to discuss the issue and hopes it can be resolved simultaneously with the question of the future of the large Slovak stake in the bank.

CSOB, which is 66 per cent owned by the Czech state, is seen as the easiest of the three big state banks to privatise because of its otherwise healthy loan portfolio.

Schroders, the UK merchant bank advising the government on CSOB's privatisation, will discuss with the Slovak central bank whether it wants to sell its shares at the same time.

The European Bank for Reconstruction and Development is believed to be interested in the possibility of buying the Slovak stake in order to assist the privatisation.

The privatisation advisers are due to report to the government this month but no sale will begin until a new government is elected in June.

The Social Democrats, who are leading in opinion polls, agree with privatisation but will want to set their own conditions for the sales.

Prodi hopes budget will dispel Emu doubts

By James Blitz in Rome

Italy's lightning sprint to qualify for the single European currency should enter the home straight today when Romano Prodi, the Italian prime minister, spells out plans for his next budget to senior politicians.

In a final move to dispel doubts about the country's fitness to join Emu, Mr Prodi is hoping to get firm backing from political allies for a financial package that would reduce Italy's budget deficit from 2.7 per cent to 1 per cent of gross domestic product over the next three years.

The outline budget – known in Italian as the DPEF – is to be published on Friday, two weeks before a European Union summit that determines which countries become founder members of the new Euro.

Mr Prodi believes publication of the details ahead of schedule will underpin claims that recent adjustment of Italy's public finances is sustainable. Mr Prodi will explore today whether the DPEF might even pass some legislative hurdles before the summit.

Senior treasury officials said yesterday that the budget for 1999 would tighten public finances by some L13,500bn ($7.5bn) or 0.7 per cent of GDP – the smallest dose of fiscal retrenchment Italy has seen in recent years.

After a succession of finance bills that has significantly raised the tax burden to get Italy into Emu, next year's budget will contain no increase in taxation. Indeed, the government is to return to the public some 60 per cent of a one-off Euro-tax that was levied in 1997 to achieve the Maastricht criteria.

Nearly all of the fiscal tightening will come in the form of public spending cuts. The focus will probably fall on the state-owned railways, the postal service and local government. But final details will only emerge in the autumn when the budget is tabled in parliament.

In the meantime, treasury officials believe two factors will help ensure that Italy remains on course to reach its stated goal of getting its overall debt down to 100 per cent of GDP by 2003 from the current 121 per cent.

The cost of debt servicing is expected to fall as Italian interest rates come down to German levels ahead of monetary union. Italian 3-month rates are still around 1.6 percentage points above German rates. A treasury official said yesterday the DPEF would make "conservative estimates" about the impact of lower rates on the debt burden.

The DPEF is also expected to formalise plans to raise L20,000bn by selling the fourth tranche of state shares in Eni, the oil and gas giant. This would bring down the government's holding in Eni from 51 per cent to 36 per cent, the proceeds going towards debt stock reduction.

Bosnian Serb detainees deny atrocity charges

Two Bosnian Serb former prison camp commanders yesterday pleaded not guilty to charges of responsibility for atrocities against Moslems and Croats held at the Serb-run Omarska camp during the Bosnian war, reports Reuters in The Hague.

Miroslav Kvocka, 41, and Mladen Radic, 45, who gave themselves up to Nato-led peacekeepers in Bosnia last Wednesday, were appearing before a preliminary hearing of the United Nations criminal tribunal for former Yugoslavia.

Mr Kvocka and Mr Radic were indicted in 1995 for crimes against civilian prisoners at Omarska detention camp, near Prijedor in north-western Bosnia, where Moslems and Croats were rounded up and some were allegedly tortured and killed.

The two are among 19 Serbs charged with atrocities at Omarska, where more than 3,000 Croats and Moslems, many of them from the local elite, were held between May and August 1992.

Mr Kvocka and Mr Radic each face three counts of crimes against humanity, four counts of violations of the laws or customs of war and four counts of grave breaches of the Geneva Conventions in their capacity as superiors in the camp. In addition Mr Radic is indicted for repeatedly raping a female detainee.

Volker Rühe, Germany defence minister, inspecting German troops with the Nato-led force outside Sarajevo yesterday Reuters

Earlier this week, the wife of Radovan Karadzic, the former Bosnian Serb leader, denied that her husband was about to give himself up to trial by the UN tribunal. Western diplomats had said that Mr Karadzic was negotiating the terms of his surrender and could be in custody in weeks. If Mr Karadzic was to go on trial on charges of genocide and crimes against humanity, he could incriminate senior figures in Belgrade, including the Yugoslav president, Slobodan Milosevic.

Crucial talks to start on Jakarta debt

By Gwen Robinson in Jakarta

International bankers will hold talks in New York today with officials of the International Monetary Fund and a senior Indonesian delegation to discuss proposals for dealing with Jakarta's huge private offshore debt.

The talks are regarded as crucial to efforts to overhaul Indonesia's battered economy and follow the IMF's agreement last week to include the private debt issue in negotiations over a $43bn rescue package.

Agreement on a debt resolution scheme could provide a badly needed boost to the Indonesian rupiah, which fell more than 70 per cent against the US dollar to a low of Rp17,000 in January before regaining ground.

Since last week, when Indonesia finalised its economic reform agreement with the IMF, the rupiah has traded slightly higher against the dollar, closing at Rp7,650 yesterday.

The private debt issue was excluded from two earlier rounds of IMF negotiations, an omission that analysts say led to the failure of previous economic reform agreements. Indonesian borrowers, facing rising foreign debt repayments, either stopped servicing their debts or borrowed rupiah from domestic banks.

This in turn fuelled inflation and put further downward pressure on the rupiah. At the end of last year, offshore private sector debt stood at $72bn, rising to about $73bn last month, according to Indonesian central bank estimates.

Agreement with international bankers could give a badly needed boost to the rupiah

Economists estimate the debt-to-equity ratio of listed Indonesian companies at 600 per cent. But members of the committee of 13 banks representing international lenders say it could be higher.

Until recently, the IMF insisted that private debt was a matter strictly between borrowers and lenders, despite calls from international banks and Indonesian borrowers for assistance in debt rescheduling. The Fund feared Indonesian government involvement would lead to nationalisation of part of the debt and the use of IMF funds to bail out troubled companies.

IMF officials said last week the Fund was reluctant to become involved in the private debt problem, but had stepped in because the rupiah's slide had added a "public dimension" to the issue.

Analysts say a comprehensive debt restructuring agreement is an essential prerequisite for restoring confidence and liquidity in Indonesia. The central proposal on the negotiating table in New York is a scheme similar to that used in the Mexican debt crisis in the 1980s.

Under the proposal, the Indonesian government would assume the foreign exchange risk, initially of interest repayments on the private debt. The debtors would pay the government in rupiah, at favourable exchange rates, possibly set at 6,000 to the dollar.

In exchange, international lenders would be asked to roll over their Indonesian loans by three to four years. The IMF has signalled it would support such a scheme.

The main questions involve the extent of the risk the Indonesian government would take on, and the complex nature of the debt overhang, which includes syndicated loans, commercial paper owed to thousands of investors and off balance sheet forward swap obligations that are likely to add billions of dollars to the debt level.

The negotiators are under pressure to reach broad agreement by next Monday, when the IMF's executive board is expected to approve last week's economic reform package.

GROUP OF SEVEN POLITICIANS IN WASHINGTON TODAY ARE KEEN TO AVOID FRESH WORRIES IN SOUTH-EAST ASIA

G7 likely to speak up for stronger yen

By Simon Kuper in London and Gillian Tett in Tokyo

When the Group of Seven meets in Washington today, currency investors will think back a year.

In the same city last April, the G7 meeting orchestrated a dramatic rise in the yen. This year it may try something similar. Japan is expected to persuade the group to express support for its currency, and on dollar/yen the market seldom bucks politicians.

In Washington last year, the G7 issued a statement warning against "significant deviations from fundamentals" in exchange rates. Japanese and German officials then talked tough against the dollar, and within a fortnight the yen had soared Y15 against the US currency.

Later, however, it gave back all those gains, and the yen starts today marginally weaker than it was before last year's G7. It closed in London last night at Y129.4 to the dollar.

But it has had a turbulent Easter. On Thursday and Good Friday, the Bank of Japan is believed to have bought yen and sold dollars worth up to $12bn in the market. Perhaps more significantly, Robert Rubin, US treasury secretary, said he welcomed Japan's intervention. He "shared the concern expressed by the Japanese prime minister [Ryutaro Hashimoto] about recent weakness in the yen". Mr Rubin also welcomed Japan's latest fiscal stimulus package, after weeks in which the US had said Tokyo had done too little to drag its economy out of the mire.

Mr Rubin's backing for the yen surprised investors, and helped the currency gain Y4 against the dollar. Usually Mr Rubin says he "supports a strong dollar". In addition, his 26 years at Goldman Sachs taught him that central banks should stay out of markets.

His support for Japan's stimulus package was therefore crucial: Mr Rubin believes that economic fundamentals drive exchange rates, and if he thinks that Japan's fundamentals are improving, then his support for the yen follows.

Yesterday he said the G7 would focus on the stimulus package, and said a strong dollar was in the "long-term interests" of the US economy. That remark was less positive for the currency than his usual mantra.

Many foreign exchange strategists believe that Mr Rubin's change of tack on currencies may presage his support for a strong G7 statement on the yen.

The puzzle is why the G7 should seek a stronger yen in the first place. The Japanese economy appears to be sliding into recession. Only its exporters are bucking the trend, thanks to the weak currency.

However, Tokyo and Washington believe that a weaker yen would be bad for Japan's Asian neighbours, bad for the US, and possibly even bad for Japan itself.

Joe Prendergast, head of foreign exchange research at Credit Suisse First Boston in London, said the G7 was desperate to prevent a new outbreak of contagion in the crisis-hit economies of south-east Asia. Countries in the region send a large share of their exports to Japan. Were the yen to fall, they would have to devalue in order to keep their products competitive. If a decline in the yen persuaded China to devalue its yuan, that would start a new wave of Asian devaluations.

Furthermore, the weak yen is hurting the US. Japan revealed on Monday that its current account surplus nearly doubled to Y1,651bn in February. The US current account deficit is growing in step, as the weak yen makes Japanese products more attractive to Americans, and as US exports to stricken Asia dry up.

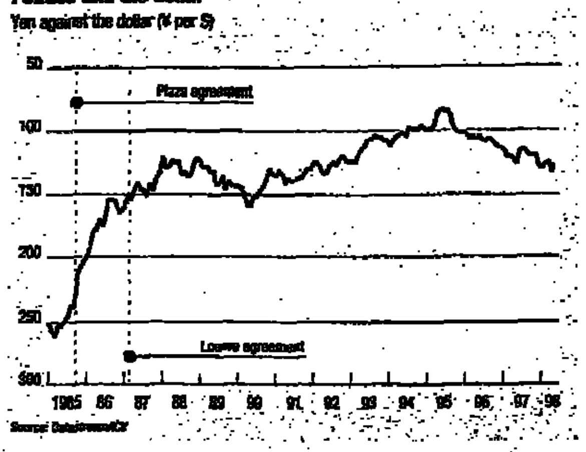
Recent data have indicated that the US economy is starting to slow. If that is the case, then Mr Rubin may soon begin worrying about his country's exporters. Detroit carmakers have long been complaining about cheap Japanese imports.

Japan is fearful that boosting its exports at the expense of the US trade deficit would irritate Washington. Carl Weinberg, chief economist at High Frequency Economics in New York, said that at least until next month's G7 summit in Birmingham, "it is politically expedient for Japan to be perceived as resisting further yen depreciation".

But Tokyo also has more self-seeking reasons to support its currency. There has been mounting alarm in the Japanese government that a broader "sell Japan" mentality might be developing, given the recent spate of bad economic and corporate news. The Bank of Japan's intervention last week was apparently designed to fight this, in both the currency and stock markets.

Mr Prendergast warns that Tokyo probably wants the yen to stabilise around current levels, rather than to rise. The central bank's intervention appears to have been a warning to markets that dollar/yen is not a one-way bet, rather than a determined effort to fight market forces for months to come. Most investment banks are advising their customers that the yen has further to fall. But the G7 will want to persuade them to go slowly.

Politics and the dollar
Yen against the dollar (¥ per $)



Source: Datastream/ICV

Japan finance minister hits out at IMF

By Paul Abrahams in Tokyo

Hikaru Matsunaga, Japan's finance minister, yesterday criticised the International Monetary Fund's evaluation of the Japanese economy.

He said the Fund had not taken on board Tokyo's measures totalling Y30,000bn ($231.7bn) to stabilise its financial system, and that Robert Rubin, US treasury secretary, and Lawrence Summers, deputy treasury secretary, who have been among the foremost critics, did not have a correct understanding of the country's tax system.

Mr Matsunaga's remarks reflect increasing irritation in Tokyo at growing overseas criticism of the government's handling of the economy. The US and Europe have said a deep recession and deflationary cycle in Japan could have dire consequences for Asia and the global economy.

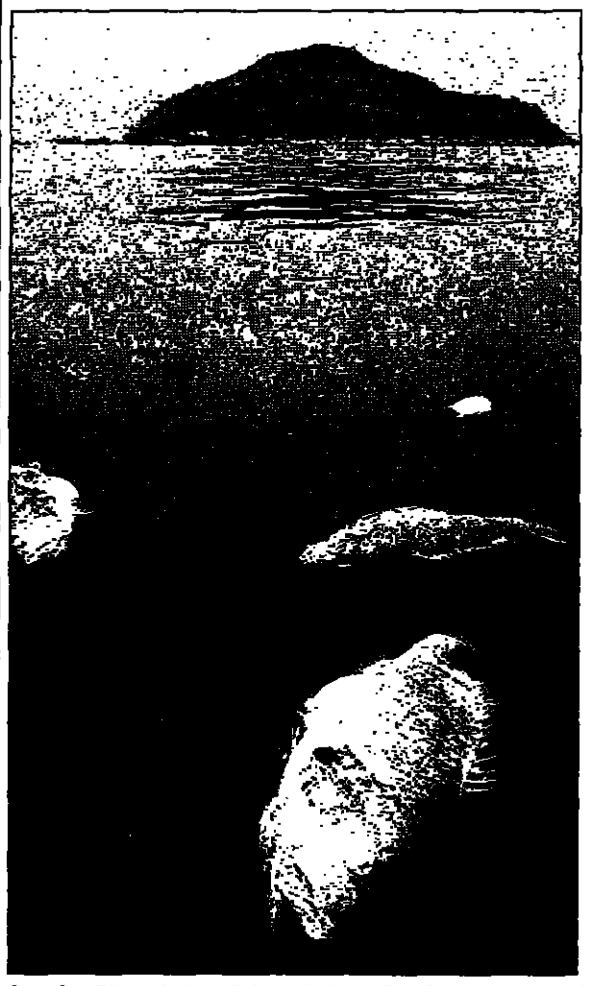
Earlier this week, the IMF predicted Japan's economy would achieve zero growth this year, partly because of the financial system weaknesses. The forecast was probably optimistic, the IMF said, and came despite a Y16,000bn economic stimulus package which was partly unveiled this month.

Mr Matsunaga will explain his government's position today in Washington at a meeting of finance ministers and central bank governors from the Group of Seven industrialised nations. Earlier this week, there were indications he would not attend the meeting, but would stay in Tokyo to explain economic policy to a critical parliament.

Mr Matsunaga said he was convinced the economy would achieve the government's growth target of 1.9 per cent this fiscal year. He hoped to meet Mr Rubin to explain Japan's tax system. The US has been pressing for reform of the tax system.

The state of the Japanese economy was underlined yesterday by data showing the last financial year was the worst since the second world war for corporate bankruptcies in Japan.

Tighter lending by banks and lacklustre consumer demand meant over 17,490 companies went under during the period, Teikoku Databank, the leading credit research agency, said. Combined liabilities of companies declaring bankruptcy increased 56 per cent to Y14,520bn.



Decaying fish – victims of the red tide – float in a bay south of Hong Kong island yesterday AP

HK fishermen fear drowning in 'red tide'

By John Ridding in Hong Kong

Belly-up and bloated, Hong Kong's fish are dying by the thousand. A "red tide" of toxic algae has killed some 1,500 tonnes of the territory's farmed fish over the past few days, about half its annual production.

Coming just a few months after Hong Kong's entire chicken population was slaughtered amid a scare over lethal "chicken flu" the flotillas of dead fish deal a further environmental blow to the territory.

With fish farmers claiming ruin and hefty compensation, and with a rash of environmental setbacks threatening Hong Kong's image as a tourist destination, the potential economic costs are also cause for concern.

"This is the most serious red tide I have known," said Joseph Sham, of the agriculture and fisheries department. Few would disagree, with the harbour-side stench of dead fish and the closure of several popular beaches underlining the severity of the problem.

There is much less agreement, however, on the causes and consequences of the red tide. The government says the lethal bloom of algae is a natural phenomenon which occurs across the world's oceans, but environmental groups and some politicians see the root problem in pollution and a deterioration in the environment.

"Pollution contributes to the blooming of red tides, particularly large tides of long duration, like this one," said Cheng Luk-ki, campaign co-ordinator of Friends of the Earth in Hong Kong. He said the algae thrived on nutrients provided by sewage and other effluents.

Christine Loh, head of the Citizens' party, criticised the deterioration in the territory's air and water quality and pointed to the threat to tourism.

Such costs are hard to calculate, obscured by the impact of Asia's economic crises and the collapse of spending power among the region's former travellers.

At the industry level, the costs are clearer. After the mass slaughter of more than 1m chickens at the turn of this year, the legislature approved a HK$770m ($99m) compensation package for the poultry industry.

Fish farmers, who say the government should have provided earlier warnings about the red tide, claim the fish carnage has cost them HK$240m. "The industry could collapse," warned the Hong Kong Fishermen's Organisation.

The government puts the losses much lower, at about HK$80m. But the figure may rise. Just as the scale and virulence of this red tide has surprised environmental officials, so uncertainty surrounds its duration. "It won't disappear easily and quickly," said Mr Sham. "We might have to wait for the water current to carry it away."

Man who can share credit for Ramos' reforms faces uphill fight for his job

Big business may be suspicious of Jose de Venecia, but he is thought likely to sustain the free-market changes that have occurred in the Philippines, **Justin Marozzi** reports

In a Philippines election, God is invoked at every turn. Yet even with the endorsement of the powerful Jesus Is Lord Movement, Jose de Venecia faces a tough fight in the battle to succeed President Fidel Ramos in elections next month.

"The best thing we can do is repent, go to confession, search our conscience and our souls for the Lord," he says. "I especially need God's strength and wisdom at this time."

Mr de Venecia, speaker of the House of Representatives, is the candidate of the ruling administration. But there is little to divide him from his rivals, according to observers in the business community.

Recent polls show Joseph "Erap" Estrada, the former movie actor turned populist vice-president, leading with a commanding 28 per cent voter support.

Mr de Venecia and Alfredo Lim, the mayor of Manila, nicknamed "Dirty Harry" because of his hands-on approach to fighting crime, are both running second on 14 per cent.

Though big business is suspicious of Mr de Venecia, he is thought likely to sustain Mr Ramos' free-market reforms. Unlike some of its neighbours, the Philippines has generally won praise for its response to the Asian financial crisis and, after a series of market-oriented reforms, finds itself in better economic health.

"We really have to modernise our financial systems and become more transparent with our corporate and market reporting," Mr de Venecia says.

"But the best proof that the Philippines is different from Korea, Thailand and Indonesia is that they are all going into the IMF [International Monetary Fund] and we have come out, after 35 years of straitjacket supervision."

As president, he would consolidate and deepen the economic reforms started by President Ramos, Mr de Venecia adds.

He can already take much of the credit for them, having been instrumental in welding together fractious political parties into a "rainbow coalition" that subsequently approved a wave of controversial economic reforms supported by the IMF.

"A de Venecia presidency would concentrate on leading our people to make three strategic jumps," Mr de Venecia declares.

"First, from the carabao [water buffalo] and plough to total agricultural modernisation; second, to complete the jump from an agricultural to an industrial age; last, to move into the information technology age of the 21st century."

This strategy might seem optimistic in a country where more than a third of the population live below the poverty line. But Mr de Venecia has a deserved reputation across the political spectrum for his ability to get things done.

Despite his weak performance in the polls, he can none the less take heart from Mr Ramos' endorsement. This confers the formidable advantage of government financial and logistical support.

Mr de Venecia reckons this endorsement translates into an extra 12-15 per cent of the vote. Many institutions, including the powerful Roman Catholic church, the opposition and the business community, fear the administration could resort to widespread vote-rigging to get its man elected.

Big business has also recoiled at the presidential endorsement, noting the allegations of corruption that have accompanied Mr de Venecia's time in government office.

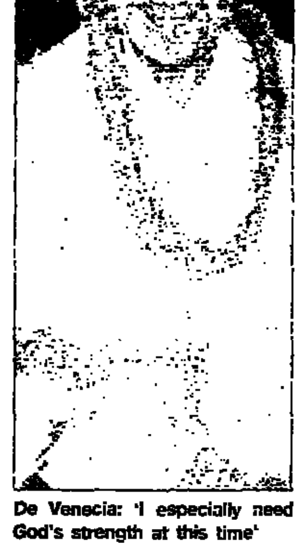
He was linked last year to a multi-billion peso land reclamation fraud and, as House speaker, has presided over a meteoric rise in congressional allowances, which opponents say buy political loyalties.

Mr de Venecia dismisses all these charges, emphasising he was cleared of any wrong-doing in the original land reclamation case and has never been convicted of any illegal act. The accusations by his political opponents that he is a "trapo" (a traditional, that is corrupt, politician) are equally false, he contends.

He modestly lays claim to all "the visionary legislation" of the Ramos era. "To get these things done, you have to wheel and deal – but not in a negative sense. It's real diplomacy and real political skills."

A traditional politician, he says, "is lazy, has mistresses and a private army, doesn't attend congressional sessions and just looks after his own interests.

"I'm the complete opposite, I'm an incorrigible workaholic." And he has God on his side as well, he adds.



De Venecia: 'I especially need God's strength at this time'

TAIWAN ELECTIONS LIAO'S DEPARTURE HIGHLIGHTS NATIONALISTS' DESPERATION IN SCRAMBLE FOR CANDIDATES

Party's woes grow as minister quits

By Laura Tyson in Taipei

Taiwan's long-ruling Nationalist party is scrambling to find candidates to field in key elections which could shift the balance of power in favour of the pro-independence opposition.

The Nationalists' desperation to find among its troops charismatic candidates willing to stand against the popular Democratic Progressive party (DPP) was thrown into relief yesterday by the surprise resignation of Liao Cheng-hau, justice minister.

Mr Liao's tearful resignation – ostensibly because he wants to spend more time with his family – threw the cabinet into turmoil, leading one local newspaper columnist to term Taiwan the "regional resignation centre". Turnover among top officials has been exceptionally high over the last year.

Vincent Siew, the premier, firmly denied the cabinet was in crisis, and said he would try to persuade Mr Liao to change his mind.

Ma Ying-jeou came under pressure from his party to tone down his anti-corruption and anti-gangster campaign

The justice minister was tipped by the Nationalists to stand for mayor of Kaohsiung, Taiwan's second city, in year-end elections, but has repeatedly refused. Political analysts said he might have been faced with the ultimatum of running or stepping down.

Mr Liao admitted after resigning that he had been under great pressure both in his work and from his seniors. When asked to explain, however, he only wept silently. Mr Liao is regarded as among the most capable of cabinet officials and his popularity rating stood at 74 per cent in a recent survey.

The situation has drawn close attention because Mr Liao's predecessor, the popular Ma Ying-jeou, stepped down under similar circumstances less than two years ago.

Mr Ma had come under pressure from his own party to tone down his vigorous anti-corruption and anti-gangster campaign.

Recently, Mr Ma has also repeatedly refused Nationalist attempts to get him to run for Taipei mayor in the year-end polls.

He is seen as the only political figure who stands a chance of defeating Chen Shui-bian, the popular DPP incumbent.

Several other potential candidates for the mayorship of Taiwan's capital have also refused, not relishing the prospect of becoming sacrificial lambs for the Nationalist party. The post has traditionally been a stepping stone to higher government positions.

There could be other factors involved in Mr Liao's decision to step down. He was in the midst of prosecuting a string of corruption cases involving top military brass. He has also orchestrated a crackdown on Taiwanese mafia and may have come under pressure for his role in these areas.

In addition to the mayoral polls, Taiwan will also elect a new national legislature later this year. The Nationalist party will find it extremely tough to maintain its razor-thin majority in the 160-plus seat body.

The party's difficulties in marshalling candidates for the mayoral elections reflect its weakness in the face of rising support for the DPP, which has become increasingly pragmatic and centrist in its policies.

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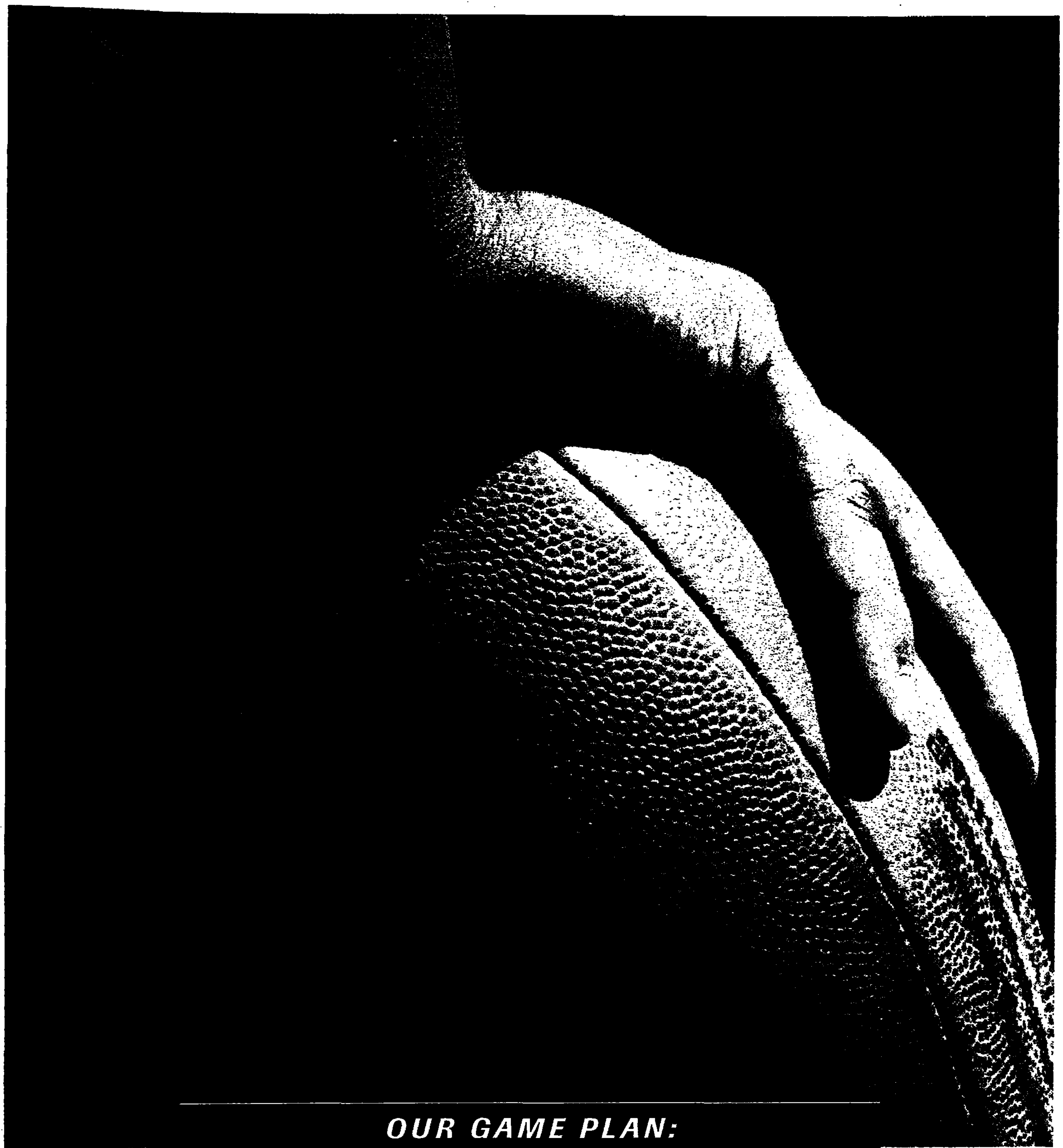
The power to create value



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Raines steps down as US budget chief

By Richard Wolffe in Washington

Franklin Raines, the White House budget director credited with balancing the US government budget, resigned yesterday to return to the private sector.

The surprise resignation was the administration's second within a week, following the announcement by Federico Peña, energy secretary, of his intention to depart for family reasons.

A former Rhodes scholar at Oxford University, as well as graduate of Harvard Law, Mr Raines is a member of President Bill Clinton's inner circle of advisers. His resignation sparked speculation in Washington of further resignations as the Clinton administration nears the end of its term in 2002.

The political pressure on leading members of the administration to remain in their posts has declined sharply since the collapse of the Paula Jones sexual harassment case earlier this month.

Mr Raines is leaving the government to become chairman and chief executive of the Federal National Mortgage Association, the US residential mortgage group which is better known as Fannie Mae.

Before joining the Clinton administration two years ago, Mr Raines was vice-chairman of the company, which has the largest underwriter of residential mortgages in the US.

Mr Clinton yesterday praised Mr Raines as a "brilliant" director of the office of management and budget and appointed Jack Lew, deputy director, as his successor.

"He is the first budget director to draft and submit a balanced budget since Neil Armstrong walked on the moon," Mr Clinton said.

"He brought a businessman's practical sensibility to the task of safeguarding the taxpayers' hard-earned dollars."

A former investment banker at Lazard Frères, Mr Raines is seen as the key negotiator behind last year's balanced budget agreement between the administration and Congress.

The government deficit was originally planned for elimination in 2002 but is now expected to disappear next year.

Mr Raines won plaudits from Republicans and Democrats alike for his work on the budget and his business acumen. Like Mr Peña, his departure will be deferred until later this year. He takes over the helm of Fannie Mae at the start of next year, succeeding James Johnson as chairman and chief executive officer of the company.

Mr Lew was previously a special assistant to the president from 1993 to 1994, working on the ill-fated healthcare legislation.

Soaring healthcare costs return to afflict US businesses

Increases in health insurance premiums could be an ominous sign of economic problems to come, writes Gerard Baker

When Susan Weiner opened her annual negotiations with health insurance companies this year, she knew she was in for a tougher fight than usual. For several years, as executive director of the Miami-Dade Teachers Federation, she had managed to keep health insurance premiums for 35,000 local teachers steady, but last year she got the first inklings that fees might have to rise again.

Nothing, however, had prepared her for the scale of the demand from insurers. "Several of the companies we negotiated with were asking for double-digit increases," she says. "Two of them wanted to raise rates by 29.9 per cent."

Ms Weiner's experience is typical of employers across the US this year. The long period of moderation in health costs has come to an abrupt end and, after four or five years of zero or negative insurance premium rises, employers are waking up to substantial increases for their workers' healthcare.

"Insurers can either raise premiums or reduce the level of care offered," says John Erbs of William H. Mercer, an independent medical benefits consultancy in Florida. "People don't want to see their treatment reduced, so it's inevitable premiums will have to rise. For the next few years you can expect to see high single-digit or even low double-digit increases."

With healthcare costs a large element of employee compensation packages, these changes could be an ominous sign of broader economic problems to come.

For most of the 1990s, falling health costs have been a crucial part of US economic success. With unemployment at its lowest level in a generation, wage pressures have been rising. But the fall in health costs has enabled employers to acceded to higher pay demands and keep the lid on prices – squashing inflation. If that period is now over, the pressures on prices may start to grow again.

"The job market is so tight at the moment, with employers struggling to find workers, companies are going to have to pay these extra costs, with obvious implications for prices or profits," say Mr Erbs.

The main reason for the years of declining costs has been the growth of so-called managed care policies. From the largest multinationals to small companies of just two or three people, employers have shifted in the last 10 years from so-called fee-for-service policies to managed care provided by health maintenance organisations (HMO).

The aim was to put a lid on spiralling health insurance costs. Under the old system employees received a luxury service, but at a high price for their companies. Whenever a patient needed medical care they were free to get the best treatment from the best doctors in the best facilities, almost without limit on the access they enjoyed.

But with the price of treatment rising rapidly each year, companies looked increasingly for ways to control costs. They found them in managed care providers, which introduced a form of medical rationing for the first time in the US health system. They controlled access to treatment, screening patients carefully and requiring them to attend lowest-cost facilities and doctors.

For a variety of reasons this phase of rapid expansion in managed care has ended. In 1993 the proportion of employees in managed care policies was just over 50 per cent. The room for growth prompted fierce competition among HMOs, who could cut profit margins but expand sales in the growing market.

Now the room for further growth is limited as only 15 per cent of employees are not covered.

And the dash for sales growth has hurt many HMOs, with several reporting big losses while others face mergers.

"The smaller guys are dropping like flies," says Edward Peddie, president and chief executive officer of AvMed, a non-profit making healthcare delivery system in Florida.

"They're being driven out of the market by the way rates have fallen in the last few years."

Rules governing HMOs have also changed in a way that raises premiums. Last year the federal government abolished the regulation that used to require HMOs which wanted to receive premiums for Medicare, the insurance programme for the elderly, to have at least 50 per cent of their insured members among the under-65 employed. Since Medicare was so profitable, companies had been willing to take on private sector business at uncompetitive rates, in order to qualify for the federal funds. The abolition of that requirement means HMOs will no longer have to offer cheap insurance premiums to the private sector.

But the third, and perhaps most important change, is in the type of coverage HMOs provide.

The poor publicity they have received has encouraged legislatures, at the local and federal level, to require companies to offer minimum standards of care, for example a minimum two-day stay in hospital for women having babies.

Some of the extra requirements are seen by healthcare providers as unnecessarily burdensome.

"It's like mandating that everyone can go to a sauna once a month," grumbles Mr Peddie.

What appears to be happening with managed care is that employees are demanding better and more extensive coverage, with, companies say, increased cost the inevitable consequence.

The irony is that managed care was supposed to offer a more limited treatment than fee-for-service at a reduced cost. But the new, costlier plans are beginning to look increasingly like the system managed care was supposed to replace.

Illness sidelines Brazil communications minister

By Jonathan Wheatley in São Paulo

Ségio Motta, Brazil's combative communications minister, has been replaced temporarily following his admission to hospital last week with a lung complaint. His illness comes at a crucial moment in the privatisation of Brazil's enormous telephone network, due to be sold later this year for at least $20bn.

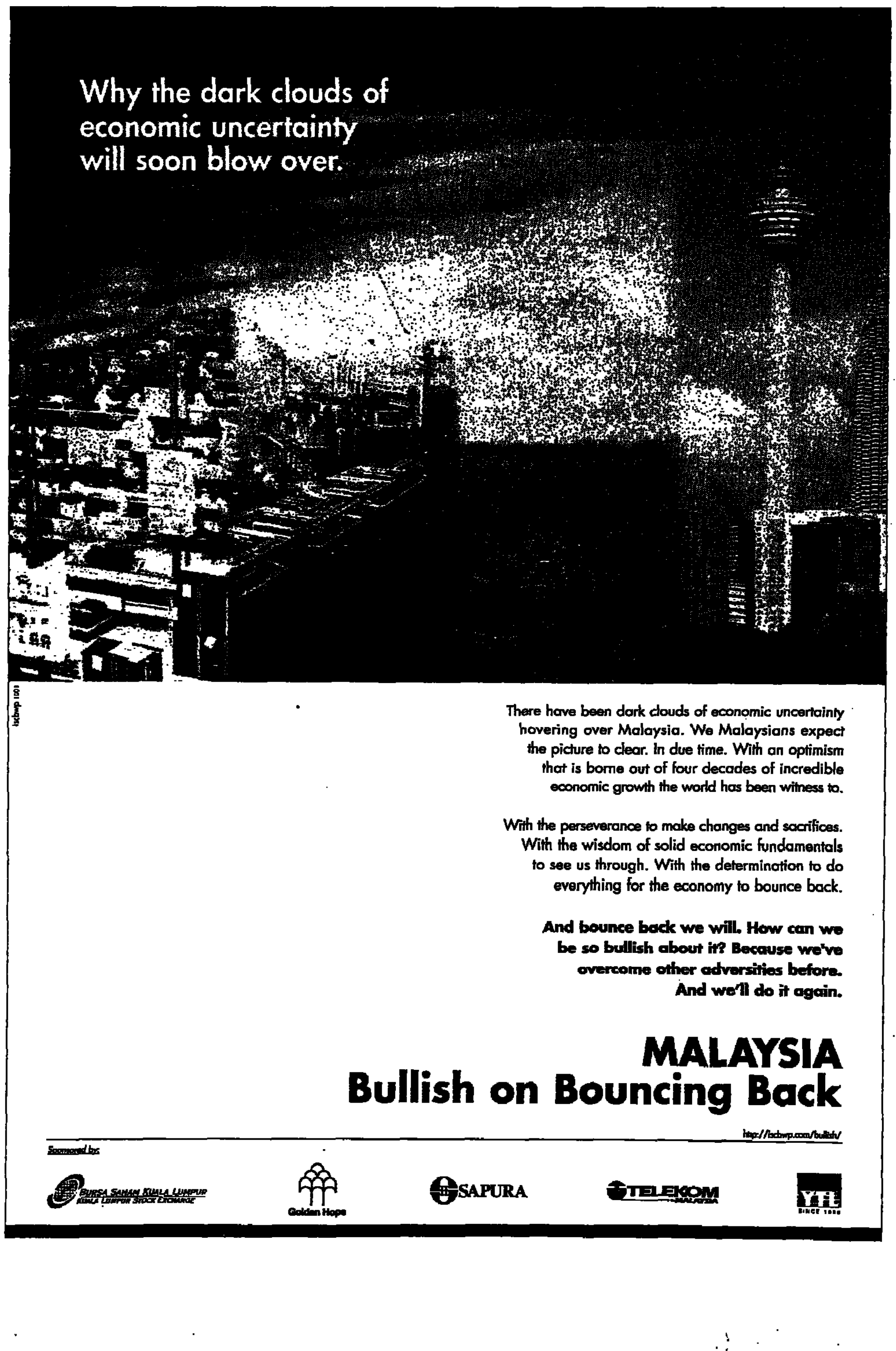
Mr Motta, known as "the tractor" and "the first friend" of President Fernando Henrique Cardoso, is replaced at the ministry by his deputy, Juarez Quadros. Responsibility for overseeing telecoms privatisation goes to Luiz Carlos Mendonça de Barros, president of BNDES, the national development bank. Mr Motta's role as Mr Cardoso's campaign manager in October's general elections will be taken by Eduardo Jorge Caldas, secretary-general at the presidency.

While Mr Motta has proved himself a capable administrator overseeing the privatisation of Brazil's massive telecommunications sector, it is his political talents that will be missed the most, analysts say.

Financial markets have been concerned by Mr Motta's condition for some days and reacted positively to his replacement, especially to the involvement of Mr Mendonça de Barros.

Mr Motta recently flew to Denver to be treated for breathing difficulties and appeared in public last week using a portable breathing apparatus. He was kept in intensive care in a São Paulo hospital over the weekend but was reported to be showing some improvement yesterday.

● Brazilian inflation as measured by the national consumer prices index was 0.49 per cent in March, down from 0.54 per cent in February, the National Statistics Institute said.



Canada ahead of the pack in Latin America

By Andrea Campbell in Buenos Aires

When 34 leaders from north and south America gather in Santiago, Chile, this weekend to negotiate the Free Trade Area of the Americas (FTAA), Canada may find itself well ahead at the bargaining table.

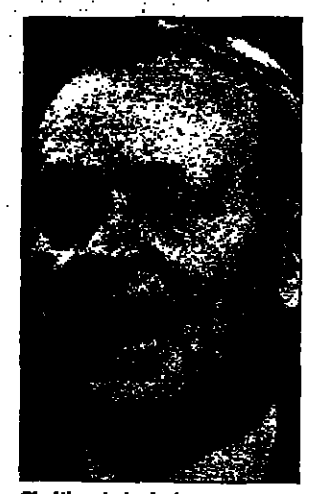
The hemisphere's northernmost member has pursued an aggressive policy to boost investment and strengthen its trade ties with Latin America. It forged a free trade deal with Chile and is in the midst of hammering out a trade and investment co-operation pact with the Southern Common Market (Mercosur), the customs union made up of Argentina, Brazil, Paraguay and Uruguay.

This is in contrast to the US, which is perceived to have lost influence over Latin trade policies since Congress denied President Bill Clinton "fast track" trade negotiating authority late last year.

In January Jean Chrétien, Canadian prime minister, led the largest Canadian trade mission on a tour of Mexico, Brazil, Argentina and Chile. The mission, the second in three years to Latin America, resulted in 306 agreements worth about C$1.8bn (US$1.3bn).

While the trip's highlight, the signing of the Canada-Mercosur accord, was stalled over a commercial dispute between Canadian and Brazilian companies, the agreement should be signed before June. In the meantime, Canadian companies are already enjoying freer access to the powerful bloc through Chile, which signed a bilateral free trade agreement with Mercosur in 1996.

"These are exciting times because we can link through Chile into the rest of the region," said Frank Wong, general manager of the Calgary-based Nova Gas International in Chile.



Chrétien: led mission

It is an important head start for Canada and is a position Canada has often used to its benefit, encouraging new trade partners to work together as a counterweight to US influence in the hemisphere.

Encouraged by the region's liberalising economies and dynamic growth potential, Canadian direct investment in Latin America has close to quadrupled since 1991, reaching C$9.5bn in 1996, according to Statistics Canada. Traditionally weak bilateral trade has also increased, from C$7.2bn in 1991 to C$16.7bn last year.

Half that trade is with Mexico. Since becoming partners in the North American Free Trade Agreement in 1994, Canadian companies have flocked to Mexico. So far 700 groups have invested US$1.5bn, pushing Canada from ninth to fourth largest foreign investor in four years. Canada's entrance into Mexico has also served as a gateway into the rest of Latin America, with companies particularly interested in Chile and its huge mineral wealth.

From Chile, Canadians naturally followed the mineral-rich *cordillera* into Peru and Argentina. Of about 80 mining companies that have rushed to Argentina in recent years, half are Canadian, including Rio Algom, which has a 25 per cent share in Bajo de la Alumbrera, Argentina's first big foreign mining project. When the US$1.2bn Alumbrera enters full production this year it will be the world's ninth largest copper mine and South America's most important gold interest.

"We had our reservations in the beginning, we were nervous, but we have no regrets," said Ulli Rath, vice-president of corporate development for Toronto's Rio Algom, which has more than US$2bn in new projects under development in South America.

Nova Gas International has no regrets either. The company, with $5bn in annual sales, is part owner of one of the world's largest methanol plants in southern Chile and has just completed its first natural gas pipeline between Argentina and Chile. "The pipeline business is a buzz in South America and we see ourselves as well positioned to take advantage of that," Mr Wong said.

And as trade and investment continue to grow, Canada aims to be able to gain the edge in a host of other sectors – from telecommunications to forestry, environmental technologies, banking and construction.

"We don't come to Latin America with a lot of baggage – there isn't any politics attached to business," said Susan Harper, commercial officer with the Canadian embassy in Argentina. "There are some disadvantages to not having a history here, but there are also lots of advantages."

Washington to toughen air safety policy

By Richard Wolffe

The US government yesterday unveiled a new air safety policy to improve inspection of aircraft engines and raise the standard of pilot warning systems.

Al Gore, vice-president, said the new measures were aimed at reducing airline accidents by 80 per cent over the next 10 years. "The steps we are announcing today will make the safest skies in the world even safer," he said.

Under the initiative, airlines will receive instructions from the Federal Aviation Administration to conduct more rigorous checks on critical engine parts.

The FAA will also order terrain avoidance systems to be installed on almost all commercial aircraft by 2001, ending the current voluntary scheme. The system warns pilots when an aircraft is getting dangerously close to the ground.

The Airline Pilots' Association yesterday praised the FAA plan – which also aims to analyse data on accidents around the world – as "a rational ordering of our safety priorities" in place of previous ad hoc government measures.

The policy announcement comes just a week after safety inspectors recommended widespread checks of fuel gauge wiring on Boeing aircraft. The National Transportation Safety Board said thousands of aircraft should be inspected to prevent another disaster such as that which brought down TWA Flight 800 two years ago, killing 230 people.

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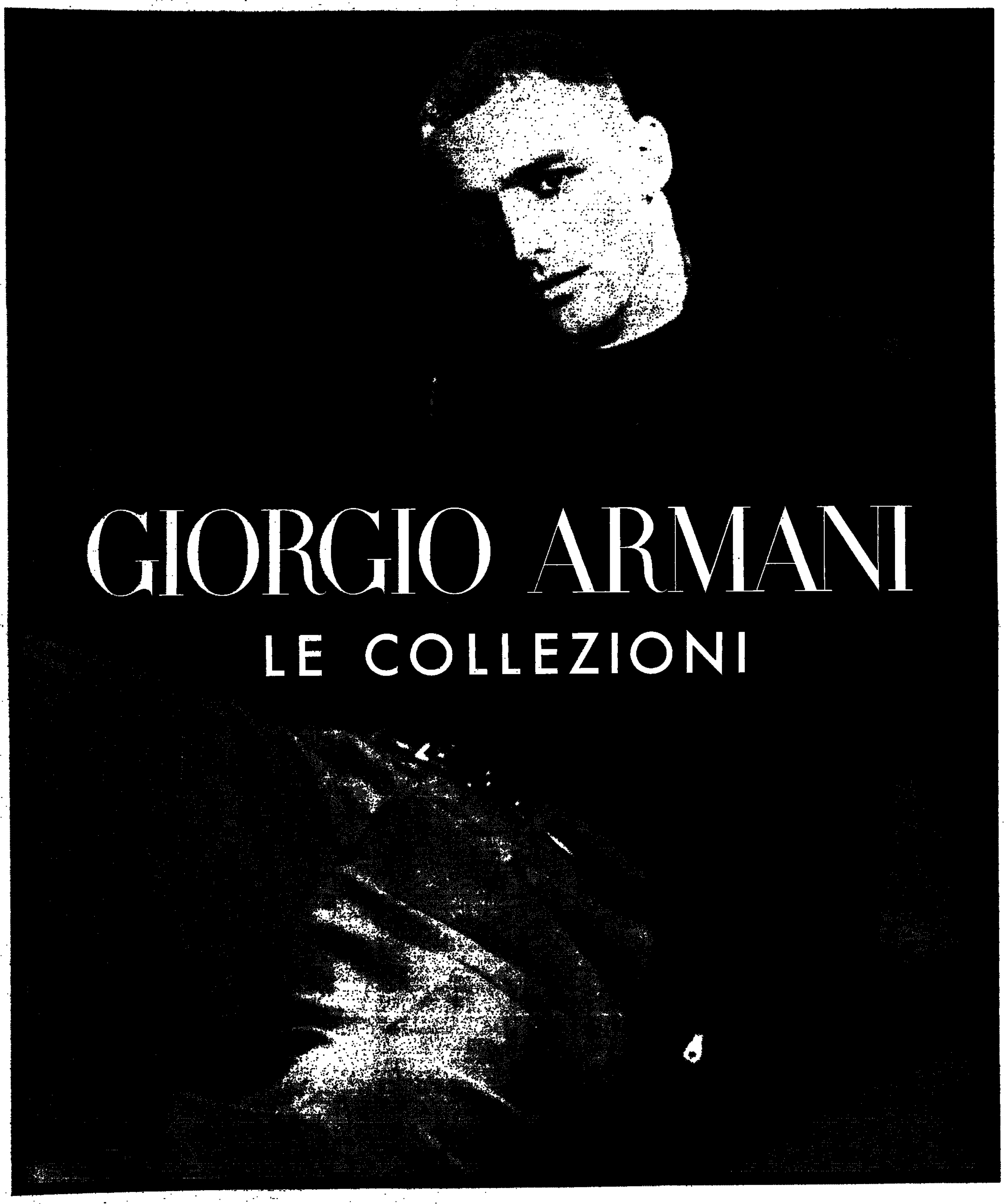


Arabs say last rites for peace process

By Mark Huband and David Gardner in Cairo

The Middle East peace process is likely to be declared officially dead within eight weeks if Israel fails to abide by agreements to withdraw its troops from occupied Arab land.

Amr Moussa, Egypt's foreign minister, yesterday gave a clear signal that after more than a year of failed attempts to salvage the Palestinian-Israeli Interim Agreement signed in Oslo in 1993, a serious diplomatic reassessment is likely by Arab states if Israeli troops remain in Palestinian areas of the West Bank beyond a mid-June deadline.

"They have to know that the peace process is dead if that deadline is reached [without a troop withdrawal]," Mr Moussa said in an interview yesterday. "Nobody buys this process any more," he said.

Egypt is in close consultation with Syria and Saudi Arabia and the three countries are expected to draw up a joint agenda if US efforts continue to fail. Arab leaders may also convene a regional summit of heads of state to co-ordinate their strategy.

Since Benjamin Netanyahu, Israel's prime minister, came to power in 1996 at the head of a right wing coalition, Israel has withdrawn its troops from most of the Palestinian town of Hebron. But further withdrawals appear unlikely before mid-June.

Egypt has become increasingly anxious at the failure of the US to break the deadlock by putting pressure on the Israeli government to abide by the Oslo agreement.

"It's up to the Americans to save the peace process. If [US envoy Dennis] Ross comes again and achieves nothing, he won't come a second time," Mr Moussa said, referring to a week-long attempt by the US envoy earlier this month to restart negotiations. "What is needed is a major policy action by the US. What is their position?" he asked.

Mr Ross left the region empty-handed after a series of meetings with Israeli and Palestinian leaders. The Egyptian government does not believe the US can be replaced as the main sponsor and mediator in the peace process. But it is equally determined to maintain the land-for-peace principle agreed in Oslo, even if the US fails despite its regional influence to see the agreement carried out.

"We don't believe in vacuums, even if the US is unable to lead the peace process," Mr Moussa said. "Anything the Netanyahu government did would continue to be illegal, he said. "There will be a reassessment. Business as usual cannot continue."

Mr Moussa revealed that Mr Netanyahu telephoned President Hosni Mubarak of Egypt last week in a fruitless effort to convince the Egyptian leader that Israel remained ready to honour its commitments. Mr Mubarak has made it clear he no longer trusts Mr Netanyahu.

Evidence elsewhere of this distrust lay in the recent Lebanese and Syrian rejection of Israeli offers to withdraw its troops from south Lebanon. The proposal to withdraw, demanded by a 20-year-old UN Security Council resolution, was rejected because of Israeli conditions.

Tutu outside the court yesterday: 'We don't want to humiliate Botha' Reuters

Botha faces moment of truth

Former South Africa president P. W. Botha will be prosecuted for refusing to appear before South Africa's truth commission unless a deal is reached by today, Reuters reports from George, South Africa.

Lawyers for Mr Botha, 82, and officials of the statutory Truth and Reconciliation Commission (TRC) spent most of yesterday locked in talks on how to reach a compromise that would allow the former apartheid leader to avoid an embarrassing court appearance.

A TRC spokesman said that they were working towards getting Mr Botha to appear before the TRC in a closed session. Mr Botha has so far resisted appearing before the TRC at all, calling it a "circus".

Mr Botha faces a fine of R20,000 ($4,000) or two years in jail if convicted.

The TRC chairman, Archbishop Desmond Tutu, said yesterday he still hoped a deal could be reached. "We do not seek to humiliate him. All that we would hope is that he would be able to assist the commission," he said.

Algerian local officials held over killings

By Roula Khalaf

Algerian local officials and leaders of civilian militias armed by the government have been arrested in western Algeria on suspicion of involvement in civilian killings, according to local newspapers.

There is no official confirmation of this. But local newspapers base their accounts on information provided by residents and security officials in the western region of Relizane, 250km south-west of Algiers.

Liberté, a French-language daily, said a dozen officials and heads of militias had been arrested on suspicion of spreading "a reign of terror" and executing dozens of civilians since 1992 in Relizane. Liberté said two mass graves, containing 17 and 62 people suspected of having been killed by pro-government militias, had been uncovered.

Among the officials arrested were two mayors, one of them belonging to the pro-government party, the National Democratic Rally. He and others are accused of extra-judicial executions, disappearances, looting and extortion.

Relizane was the site of large massacres of civilians in January and several villages were reported burned. Islamist extremists were held responsible for the killings and the government later sent in the army to clean out extremist cells in the mountainous region.

According to La Tribune, another French language local daily, a security officer who sought to investigate the involvement of government-armed militias in some killings in Relizane was also killed recently. This might have triggered the government crackdown.

The reports in Algerian newspapers follow allegations by international human rights groups and some Algerian opposition parties of widespread human rights abuses in Algeria, and calls for investigations into civilian killings. Human rights groups are urging western governments to take up the Algeria case at the United Nations Human Rights Commission, now in its 54th session in Geneva.

The government has rejected calls for independent inquiries on the ground that they may absolve Islamist extremists, held responsible for most of the violence. However, government officials said yesterday that the government had never denied that abuses had taken place. But they insisted they were neither systematic nor generalised.

Airport impasse clips the wings of Palestinian statehood

Gaza's terminals will either be a monument to sovereignty or a mausoleum to the peace process, writes **Judy Dempsey**

When Tony Blair, UK prime minister, visits Israel and the occupied territories later this month, one issue he is expected to raise is Gaza International Airport.

The $63m airport, half financed by European Union donors, is located south of Gaza city and near the Egyptian border. The runway is complete. The main terminal is ready for operation. Moroccan craftsmen are finishing off the VIP lounge with tiled mosaics.

But the control tower is empty and no aircraft can land or depart. Donors say Israel is holding up delivery of German navigational equipment until a protocol to operate the airport is agreed between Israel and the Palestinian Authority (PA). Once the airport is opened, it will be a monument to Palestinian statehood and sovereignty. If it stays unused, it will be a mausoleum to the peace process.

As the Palestinians see it, Israel is setting unrealistic demands, knowing the airport will confer on the PA a measure of greater sovereignty and another symbol of statehood.

Fayez Zaidan, the PA's negotiator and chief of the Palestinian civil air authority, said it would also give Palestinians their first window to the outside world. It would allow them to trade, and enable its people, at least from Gaza, to travel without passing through Israel. It would be the PA's first step to breaking its dependence on Israel. But before that happens, Israel insists on stringent security needs.

The first, said General Shlomo Brom, the Israeli negotiator, concerns the role of security personnel. Palestinian and Israeli security personnel will together operate the airport in different locations and conduct different activities. But if there is a dispute, it has not been agreed who would have the final say.

"There is agreement in principle to have the minimum presence [of Israelis] at the airport," said Gen Brom, adding that passengers who posed a security risk to Israel would not leave or enter Gaza. Israel, as agreed, would have access to passenger lists.

The second issue is cargo. The cargo terminal is not yet completed, so all Palestinian cargo will first be transported to Rafah, near the Egyptian border, where Israel wants to inspect it to stop weapons or military equipment entering Gaza. There is no agreement on the inspection methods.

The third issue is designation of aircraft. Every airport has a designation consisting of four letters. The first two are the Flight Information Region (FIR). Israel insists that since the 1995 Interim Agreement gives Israel control of Gaza airspace, its own FIR should be used. The Palestinians, for reasons of statehood and national identity, want their own.

But beyond these issues, there is a prevailing suspicion among Palestinians about Israel's motives. They fear that if the airport were opened under the present circumstances of stalled peace negotiations, it would give Benjamin Netanyahu, Israeli prime minister, an excuse not to go ahead with further troop pullbacks from the West Bank or establishing a safe corridor for people and goods between the West Bank and Gaza.

Palestinians insist the airport must not be extracted from all the outstanding issues of the Interim Agreement, a view reflecting their complete lack of trust and confidence in Israel's motives. "The Netanyahu government never wanted to view the Oslo accords as an integrated process, each tied to a timetable," said an EU diplomat. "I can understand why the Palestinians are very wary."

Tehran students' protest broken up

Iranian police yesterday broke up a demonstration by 2,000 students demanding the release of Gholamhossein Karbaschi, Tehran's jailed mayor, Reuters reports from Tehran.

A group of hardline activists attacked the demonstratorsafter they started chanting "Karbaschi must be freed", witnesses said.

The students then started marching towards the interior ministry, about 2km away, but were stopped after a few blocks by police in riot gear who used batons to disperse the march, they said.

The detention of Mr Karbaschi, a close ally of President Mohammad Khatami, has become the focal point of a power struggle between conservatives and moderates that has been brewing since Mr Khatami's election last year.

Digital detectives surf net for jukebox pirates

By Alice Rawsthorn

The Recording Industry Association of America (RIAA), which represents US record companies, is planning a crackdown against the pirate digital jukeboxes that post unauthorised copies of albums and singles on the internet.

Frank Creighton, vice president of the RIAA's anti-piracy unit, said the association had been monitoring the recent increase in digital music piracy, and had identified a number of internet sites suspected of breaching copyright.

The RIAA expects soon to take legal action against the unauthorised sites. Last June, the association set a precedent by issuing writs against three sites, all of which closed down immediately.

Digital piracy is a growing concern for international record companies. An unofficial study recently identified 1,800 illegal internet jukeboxes worldwide. The problem is particularly severe in the US, the country with the highest level of internet usage.

Illegal digital jukeboxes have sprung up all over the US, notably on campuses, where students have access to college servers. New recordings are often posted up on internet sites within a few hours of release.

Anyone with a multimedia computer can download music from these sites on to a hard disk, and record it on to a compact disc using a CD recorder, which can be purchased for $400. Some digital pirates charge consumers to download the music, but others offer it free.

The problem is now so serious that the RIAA has hired a permanent team of "digital detectives" at its Washington headquarters, who surf the internet in search of copyright abuses.

The association's anti-piracy unit then tracks down the illicit sites using conventional detection methods.

"Since last June's legal suits, we've been actively looking for other targets to litigate against," said Mr Creighton. "And we'll be taking action very soon."

Record companies and music retailers plan eventually to operate their own official digital jukeboxes by delivering music to consumers over networks, such as the internet.

Some companies are already doing so on an experimental basis, but they are unlikely to proceed with fully fledged commercial digital distribution until the necessary legal and technical copyright protection mechanisms are in place.

Over the long term, digital distribution could enhance their profitability. Retailers will save on property and staff costs, and record companies can increase direct sales to the public.

However, the music industry must stem the rise in piracy if it is to exploit these commercial benefits fully.

Brittan seeks backing for millennium trade round

By Ken Warn in Buenos Aires

The European Union hopes to secure Latin American backing for a Millennium Round of trade liberalisation negotiations, Sir Leon Brittan, EU trade commissioner, said yesterday. Sir Leon said Argentine officials had responded very positively and he hoped to meet the same response in Uruguay and Brazil.

The round, which would follow the successful 1986-93 Uruguay Round, was formally backed by EU trade ministers last month. It would tackle remaining industrial tariffs and investment and competition issues. "With Argentina, it's fair to say I was knocking at an open door," said Sir Leon, after talks with President Carlos Menem and senior ministers.

The US, which has backed a sectoral approach to future trade negotiations, has not yet given its response to the Millennium initiative.

The EU was also seeking a mandate to begin trade negotiations with Mercosur, the customs union which groups Argentina, Brazil, Paraguay and Uruguay, Sir Leon said. "We hope to have a text to present to the Council of Ministers in June so we can start the talks next year."

Sir Leon denied his three-nation Latin American trip was a pre-emptive European strike ahead of this weekend's Summit of the Americas in Santiago, Chile, where talks will begin on forging a Free Trade Area of the Americas (FTAA).

"We are not in a race with the FTAA and we don't have any hang-ups about it. It is up to them to decide how far and how fast they want to go," he said. But it was essential that any eventual Americas-wide agreement should conform with World Trade Organisation rules, and should lower barriers internally but not raise them externally.

Argentina, which wants greater access to European markets for its agricultural exports, is continuing to press hard for changes to the EU's common agricultural policy, Sir Leon said.

Sir Leon criticised last year's move by Mercosur to raise its common external tariff by 3 percentage points. "It is perfectly lawful under WTO rules but it sends a bad signal. I was pleased by Argentine assurances that the move was temporary."

Prince invests in Teledesic

By Christopher Price in San Francisco

Prince Alwaleed bin Talal, the international investor and nephew of Saudi Arabia's King Fahd, yesterday said he had invested $200m in the privately held Teledesic telecommunications company.

Teledesic, backed by Microsoft's Bill Gates, is to begin operating by the end of 2002, with 288 satellites providing two-way, broadband communications anywhere in the world.

Boeing of the US is to build and deploy Teledesic's planned $9bn satellite network of access to telecommunications services such as the internet and video conferencing.

With an estimated fortune of $11bn, Prince Alwaleed has an international portfolio which includes stakes in banks, real estate, hotels, broadcasting, computers and an airline.

Prince Alwaleed has also recently bought stakes in Korean and Malaysian automobile manufacturers.

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for April 15 1998 to May 14 1998 (March 15 1998 to April 14 1998 in brackets).

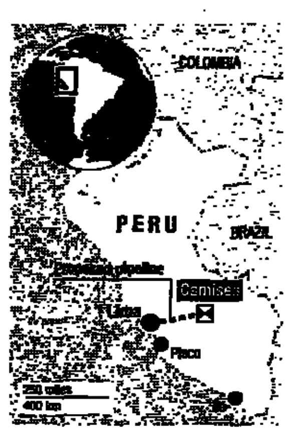
D-Mark	5.58	(5.50)
Ecu	5.27	(5.38)
French franc	5.65	(5.68)
Guilder		
up to 5 years	5.45	(5.40)
5 to 8.5 years	5.70	(5.65)
more than 8.5 years	6.10	(6.05)
Italian lira	4.91	(5.13)
Yen	2.40	(2.40)
Peseta	5.60	(5.68)
Sterling	7.19	(7.21)
Swiss franc	–	(3.91)
US dollar for credits		
up to 5 years	6.57	(6.43)
5 to 8.5 years	6.61	(6.49)
more than 8.5 years	6.71	(6.60)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when tiding at bid. Interest rates may not be fixed for more than 120 days. SDR-based rates of interest are the same for all currencies.

CAMISEA PROJECT OFFICIALS SUSPECT SHELL, MOBIL WANT FURTHER TAX CONCESSIONS

Peru gas scheme faces delay

By Sally Bowen in Lima



Shell and Mobil are expected to lodge a formal request this week to postpone for six months the full development of Peru's vast hydrocarbons reserves in the south-eastern jungle area of Camisea.

Initial investment in the trans-Andean pipeline and basic infrastructure is estimated at upwards of $2.5bn, while a petrochemicals complex based on Camisea's natural gas would demand $3bn in a first stage.

The request comes as an embarrassment to the Peruvian government, which has dubbed Camisea the "deal of the century." Ministers have already stated that any postponement would be unfortunate and, under the terms of the contract signed two years ago, the government appears to have the right to demand that the Shell-Mobil consortium proceed immediately or pull out altogether.

Shell and Mobil are alleging technical grounds for the postponement: drilling at the two enormous reservoirs, San Martin and Cashiriari, has revealed particularly troublesome fractures in the bedrock, meaning the ratio of saleable liquids to cumbersome gas is sharply lower than originally thought. Initial estimates of reserves – some 11,000bn cubic feet of natural gas and 600m barrels of liquids and condensates, making this one of the world's largest of its kind – are not affected. This technical problem has, however, been known about for many months.

The government seems to suspect Shell-Mobil has ulterior motives for the proposed delay: some senior officials in Perupetro, the state's entity for hydrocarbons contracts, accuse the transnational consortium of seeking further tax concessions and incentives. The consortium is already the beneficiary of a law which grants early drawback of Peru's 18 per cent sales tax on all purchases made in the development phase.

While Camisea's condensates have a ready and thirsty local market and good export potential, natural gas is unknown as a fuel in Peru. The pipeline is expected to bring a huge 500m cubic feet daily over the Andes to Lima. So far, only a handful of large industrial customers have signed preliminary contracts for supply and there are no tax incentives to cut their conversion costs.

Disappointing, too, has been the decision by EnerSur – a wholly owned subsidiary of Belgium's Tractebel – to press ahead with construction of some 460MW of coal-fired energy plants in Peru's energy-hungry south. Shell and Mobil had hoped environmental arguments would persuade both investors and government to plump for cleaner, home-produced gas instead of importing coal from Indonesia. But funding has now been secured, with the InterAmerican Development Bank making itself responsible for finding three-quarters of the $440m total required.

Shell and Mobil say privately that they are still convinced Camisea will go ahead. Several hundred people are already employed full time by the Bechtel-led consortium charged with the final design and engineering work for the ambitious dual pipeline – which commences in virgin rainforest and rises to 4,500m above sea level before dropping down to the coast. But a big rethink by both private sector investors and government now seems inevitable.

One likely modification to the original development plans may be to use some of Camisea's gas to generate electricity close to the wellhead. This would substitute energy generation capacity lost when the Machu Picchu hydro plant was knocked out – apparently permanently – by a rock and mudslide in late February.

US customs ruling reignites lumber dispute with Canada

By Edward Alden in Toronto

A dispute over Canadian softwood lumber exports to the US could be rekindled after a US Customs Service ruling that will block about $20m a month in Canadian sales.

But Canadian producers and the government are expected to tread carefully to avoid re-opening a new round of battles with the US. The Customs' decision, which will be published today, closes a loophole that had allowed Canadian companies to bypass a quota and raise shipments to the US.

The US and Canada two years ago agreed to restrict Canadian duty-free exports to 14.7bn board feet of lumber each year. Shipments above the quota face a $50 to $100 charge on each 1,000 board feet. The deal was reached in exchange for US lumber producers agreeing not to pursue countervailing duty actions against Canadian companies.

But Canadian producers discovered a loophole in the carefully crafted agreement last February, when British Columbia-based Canfor won a customs ruling that dimensional lumber modified by small drill holes should be classified as a separate product and not subject to the quota.

Since then, Canadian exports of the modified product have surged by about $20m a month. The Customs' decision to close that loophole will not immediately hurt Canadian exports, because the new quota year began on April 1.

But it could well start pinching lumber producers by the autumn, particularly in British Columbia where traditional export markets in Asia collapsed after the financial crisis.

British Columbia is also trying to give its beleaguered forest companies a break by easing environmental regulations and possible lowering its charge for cutting on crown land, moves that are being eyed carefully by US lumber producers for possible violations of the deal.

While some forest companies are eager to fight the ruling, the chief spokesman for the industry says that would be a mistake. Jake Kerr, chairman of Vancouver-based Lignum, says it is more important to "preserve the integrity of the lumber agreement" than to keep the loophole open.

Barry Appleton, a Toronto trade lawyer, said Canadian lumber companies may have no choice but to swallow the decision. "Canada is between a rock and a hard place," he said. "It doesn't like the decision but it would be even more unhappy if it didn't have an agreement."

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companies.

Computer systems with the phenomenal power to compute the absolute toughest problems.

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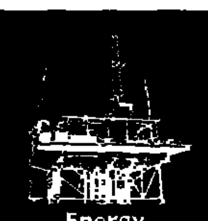
Insight comes from seeing and solving your toughest problems in ways not possible before.



Energy
Revolutionary new processing and visualisation have turned declining oil fields into lucrative energy reserves for companies like Chevron, Pemex, Phillips Petroleum and Texaco.

Computers are merely tools, the best of which help you see, understand and create things you never could before.

This is what separates Silicon Graphics® systems from every other type of computer today.

Computer systems with the phenomenal power to compute the absolute toughest problems.

Computer systems that can visualise the most complex data with the most clarity.

Government
Equipment, time and resources are spared by the ability to train, simulate and run operations more realistically for customers like the U.S. Departments of Defense and Energy, Lockheed Martin, NASA and the National Institutes of Health.

These two factors, and our in-depth industry knowledge are why every major corporation, in every major industry uses Silicon Graphics systems.

Together they help companies fundamentally change the way business is done in manufacturing, science, energy, government, entertainment and communications. They are the reasons companies lead their industries in finding opportunities where before there were none. They are the reasons Silicon Graphics is again poised to become the most talked about computer company in the world.

In order to succeed today, companies must combine massive amounts of data with the ability to see that data in more meaningful ways. Traditionally, these applications involve modeling, simulation, design and special effects. Moving forward, you will need applications for creating business intelligence, storing and serving complex media, and leveraging the power of the networked world in a data intensive environment.

Manufacturing
Tremendous modeling and simulation power makes it possible for companies like Boeing, Chrysler, Harley-Davidson, Hyundai and Renault to bring better products to market faster.

All require the strengths of Silicon Graphics solutions.

All require solutions that enable the true power of human insight.

Science

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Computer systems with the power to visualise the most complex data with the most clarity.

sight.

The insight of knowledge.

The insight of creativity.

The insight of innovation.

Today, you can let data lead you to powerful insights, or you can let its complexity and growth suffocate your business. Silicon Graphics systems eclipse the capacity of ordinary computers to convert data to knowledge. Our systems' advanced architecture and performance are keystones of competitive insight for our customers.

In addition to our core commitment to the UNIX® environment, Silicon Graphics is now allied with Intel and Microsoft, extending this power to new platforms, and enabling us to provide added choice for our present and future customers.

Innovation, creativity and knowledge are all supremely human factors in the equation for solving the toughest business problems. To foster the insights that generate these factors, more companies turn to Silicon Graphics computing.

It's where they find the power of insight.

Entertainment
Used by companies like Industrial Light & Magic, Square USA, Sony Pictures Entertainment and The Walt Disney Company, our technology has been the power behind blockbuster special effects, the most realistic gaming systems and now, is at the forefront of the world's transition to Digital Television.

Communications
Fueled by deregulation and the Internet revolution, companies like Czech Telecom, Digex, GTE SuperPages Interactive Services, Hiway Technologies and Telewest *use our technology to create* new revenue generating services and cost-effective Internet infrastructure.

Science
Revolutionising the industry by enabling companies like Bristol-Myers Squibb, DuPont and Schering-Plough to develop advanced techniques that move science from the laboratory bench to the computer.

SiliconGraphics

www.sgi.com

vision.

Many of my colleagues have asked why I recently decided to take on the challenge of leading Silicon Graphics into the 21st century. The answer is simple. I believe Silicon Graphics has tremendous potential to become the most powerful resource in the world for generating, fostering and expanding human creativity and insight.

Fueling this potential are three core competencies: High-performance computing, visualisation, and our thorough understanding of the markets in which we thrive.

The combination of these three factors make Silicon Graphics unique in the industry, and it makes us a powerful resource for powerful business.

To make this resource more accessible, Silicon Graphics is pushing the envelope with present and future technologies. In addition to our continued commitment to the UNIX environment, the future inclusion of Intel and Microsoft technology and software will expand our product offering to our key markets.

Perhaps the most important signals for the success of Silicon Graphics are its customers and employees. Our customers repeatedly bring us their toughest computing problems, and our employees repeatedly create solutions uniquely capable of solving them. That's why Silicon Graphics will continue to be the power behind the world's most powerful companies. That's why every one of our 10,500 employees comes to work each day. And that's why I chose to pour my energy and passion into this company.

the power of insight

Richard E. Belluzzo
Chairman
Chief Executive Officer

SiliconGraphics

INWARD INVESTMENT LG AND HYUNDAI MOVES WILL ADD TO DISMAY IN SCOTLAND AND WALES

Korean factory start-ups delayed further

By James Buxton in Edinburgh

Senior executives at LG and Hyundai, the Korean companies, have warned of further delays in opening their big semiconductor plants in Wales and Scotland. Both companies are seeking international partners with whom to complete their projects.

LG said its semiconductor plant at Newport in south Wales would now open at the end of 1999, five to six months later than previously announced. An official said LG was looking for another company to become involved in the scheme and disclosed that LG had so far raised only $300m-$400m of the $2.1bn needed to complete it.

At Hyundai Semiconductor a senior manager said there was a 50-50 chance of further postponement in the opening of its $2.1bn semiconductor plant at Dunfermline in Scotland which has already slipped from the end of 1998 to the end of 1999. It too was looking for a partner and would have to "review the project" if it did not find one.

The warning of further delays to the two big inward investment schemes came in interviews by the BBC with the companies in Seoul. They are likely to cause dismay in Scotland and Wales and further potential embarrassment to the UK government which is committed to give large amounts of financial aid to both schemes.

LG and Hyundai are affected by the economic crisis facing South Korea. Both are financially overstretched and are under strong pressure from their government not to increase foreign borrowing. Their quests for other electronic companies to become involved are restricted by the limited number of companies worldwide large enough to undertake investments on this scale.

The LG semiconductor plant, set to employ 1,700, is part of a $2.8bn investment by the company in Wales, envisaging the eventual employment of more than 6,000. The four-storey shell of the semiconductor plant has already been built but is waiting for the installation of equipment.

Earlier this year LG blamed the postponement of the plant's opening by six months to mid 1999 on its decision to introduce more modern semi conductor technology into the facility. Hyundai last December moved back the opening of its Dunfermline plant by a year to the end of 1999. In February it curtailed most work on the completion of the shell of the facility for a four month period. It also emerged that it was negotiating with Scottish Enterprise, the development agency, to obtain ownership of the site in order to make it easier to raise finance to complete it and to attract a partner.

Assurance from Japanese envoy

Sadayuki Hayashi, the Japanese ambassador to the UK, yesterday assured industrialists in north-east England that any lull in inward investment by Japanese companies would be temporary and that "there will be a resumption of such ventures when the circumstances seem right", Gautam Malkani writes. Mr Hayashi told industry leaders at a reception in Newcastle upon Tyne, the area's main city, that the closure of Mitsubishi's colour television production plant in Scotland last week "should not be taken as the signal for large-scale retrenchment". He said Japanese long-term investment "is not about to change due to temporary macro-economic difficulties" experienced in Asia.

N Ireland deal soon to face first test from Protestants

Local members of the biggest party in Northern Ireland will have their say at the weekend, writes **John Murray Brown**

The Northern Ireland peace agreement will face its first real hurdle on Saturday when David Trimble, leader of the pro-British Ulster Unionists, will seek the backing of his party's ruling council.

His supporters appeared quietly confident yesterday that the agreement would be endorsed. But this weekend the grassroots will have their say when the 800 council members – representing branch offices, the protestant Orange Order, and youth and women's groups – will vote on the settlement.

There are considerable misgivings among these groups. The difficulties are not so much with the core political deal but with the so-called equality agenda, which many Unionists see as appeasing Sinn Féin, the political wing of the Irish Republican Army.

Among activists, there is considerable disquiet that IRA prisoners are to be released without any guarantee that the paramilitaries' arms will be decommissioned. One leading UUP thinker said the government's reassurance in a letter to Mr Trimble on the issue was "pretty vague".

Mr Trimble's ability to muster support for the deal will be critical. "One thing is clear – Trimble is more popular than the agreement," said one party member who said he had still to decide whether to back the deal.

'Those against [the peace agreement] have nothing to offer except more of the war'

At first glance Mr Trimble appears to face a formidable task, with as many as six of his 10 fellow MPs said to be opposed to the deal. But the parliamentary party – widely dismissed as dinosaurs by younger members – has rarely been a good measure of sentiment in the council.

Mr Trimble's supporters point out that when he won the leadership contest in 1995, none of his fellow MPs voted for him. Indeed, Mr Trimble, John Taylor and Ken Maginnis accounted for 75 per cent of the votes cast that night. These three are now the principal advocates of the agreement.

Opponents of the deal include old-guard unionists led by William Ross and William Thompson, both of whom represent constituencies in the west of Northern Ireland, where unionists are in a minority and under threat from a resurgent nationalism. Jeffrey Donaldson, a key Trimble ally, is also said to oppose the deal.

Unionists in nationalist-held seats in the east of the region, such as South Down or Newry and Armagh appear to be more supportive, but opinion is more sceptical in the comfortable eastern districts of North Down and Lisburn, where Protestants are in a majority.

"I sometimes think people just haven't suffered enough. In [protestant] Larne or Antrim; they wouldn't know a Sinn Féin member if he jumped up and bit them," said Bobby Stoker, a Belfast councillor for the hardline "loyalist" area of Sandy Row. In the area he represents, he estimates that 80 per cent of members are for the deal.

"Those against have nothing to offer except more of the war," he said.

But Stephen King, a member of the Young Unionist Movement, and a respected analyst of the party mood, said that regional breakdowns can be misleading.

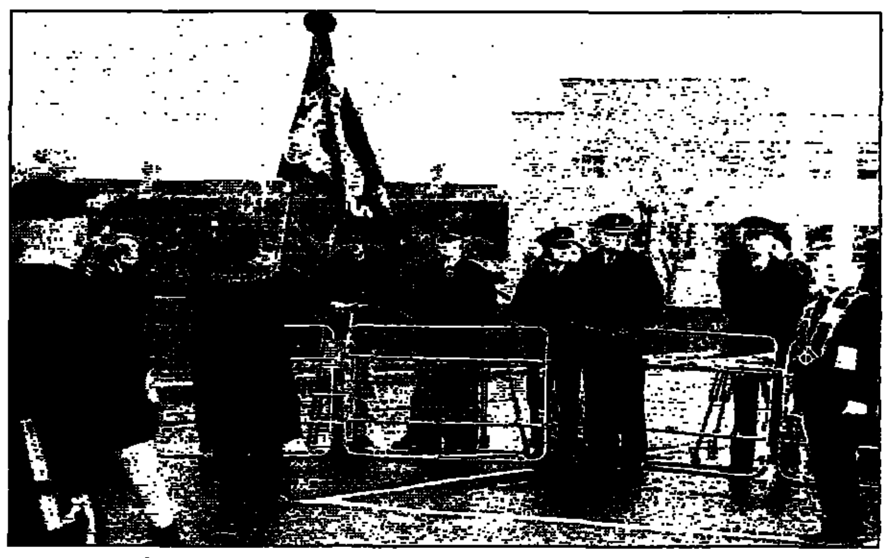
He pointed out that Limavady and Omagh branches, both in the west, are said to be against the deal, while Coleraine and Strabane, also in the west, are in favour.

Official predictions were hard to come by yesterday.

Much will ride on tonight's meeting of the influential Orange Order. Although the order accounts for just 85 of the council's members, its decision carries weight among constituency officials, among whom the order is relatively strong.

Mr Trimble's camp hopes the Orange Order, like the Church of Ireland and Presbyterian Churches, will leave the issue to the consciences of individual members. But a "no" vote tonight could sink the agreement.

● President Bill Clinton was urged last night to stay away from Northern Ireland before next month's peace settlement referendum. Peter Robinson, of the hardline Protestant Democratic Unionist party, said Mr Clinton would be interfering.



Protestant marchers approach a police line before turning away from a Roman Catholic area in Belfast

Rail route may go to France

By Jonathan Ford in London

Central Railway, the private company whose plans to build a £3bn ($5bn) freight rail link from the English Midlands to the Channel tunnel were rejected by the UK parliament in 1996, is drawing up revised proposals that would extend the link to the north of England and carry passenger trains.

Under the new plan, the line would more than double in length to 645km and would run from Liverpool through Manchester, Sheffield, Leicester and London to Lille in northern France. It would be used mainly for freight but would also carry passengers.

Central's original scheme, which envisaged a 300km link between Leicester and the Channel tunnel, was rejected after attracting fierce criticism from MPs along its route who claimed homes would be blighted.

Central said it had decided to revive the scheme because of the government's enthusiasm for encouraging rail transport. "If the government really wants to get lorries off the roads, the only way to achieve it is through Central Railway or something like it," said Alan Stevens, finance director.

Central believes it could be carrying up to 30m tonnes of freight within two years of opening the line, which would take 2m lorries a year off the roads.

It plans to take over disused rail track and parts of the existing network to carry lorries on flatbed wagons and double-stacked containers.

The company has yet to make an application to the transport department. Should it do so and the scheme be approved by parliament, the project would face a three-year approval period prior to construction, which would take around five years.

Airport food wins praise

The Noon Indian restaurant at London's Heathrow airport was described yesterday as the "most outstanding establishment" at a UK airport in the first report ranking airport catering outlets.

The guide, launched by Egon Ronay, the food critic, also praised the Pret à Manger sandwich bar, Harry Ramsden's fish and chip shop and the Metro Café at Heathrow. Gatwick airport's Planet Hollywood and two Metro Cafés were also praised.

Mr Ronay said food on offer at airports had improved "immeasurably" since BAA commissioned him and a team of inspectors to monitor quality. He said this was just as well for passengers given the low standards of food served to them on aircraft. But there was still room for improvement.

Mr Ronay said: "Six years ago it really was almost impossible to get a good cup of coffee. Now it's a very different situation." Nevertheless too many passengers were still being fed "dry and tasteless" burgers and watery coffee.

● The government yesterday called on tourism organisations and the public for ideas on how to protect Britain's tourism sites from the danger of destruction by mass tourism, writes Scheherazade Daneshkhu.

Tom Clarke, minister for film and tourism, said the government was committed to the growth of tourism, which provides one in eight UK jobs and accounts for more than 7 per cent of gross national product.

But he said the industry had to be developed in a way that was sensitive to the environment.

Mr Clarke said there was no evidence that any area of the country had been damaged by tourism but wanted a strategy to cope with tourism growth over the next two decades.

Bank's ethics under scrutiny

A Co-op report will provide ammunition for those who have dismissed its claims as gimmicks, says **George Graham**

The Co-operative Bank has for years annoyed its competitors with its holier-than-thou advertisements and its marketing campaigns designed to put rival banks on the spot as financiers of death and destruction.

But when the bank publishes its financial results today it will also be putting its ethical claims up for scrutiny, with the publication of its first "partnership report", covering relationships with staff, customers, suppliers and the wider community.

The results, audited by Richard Evans of a group called "ethics etc", will provide some ammunition for those who have dismissed the Co-op's ethical and ecological claims as marketing gimmicks.

Customers who rushed to sign up for the bank's biodegradable credit card, launched with much trumpeting last year, for example, will be disappointed that the Co-op failed to recycle a single can, tin or piece of aluminium last year.

"NatWest recycles more cans than we do, although we are better on plastic cups.

"We were so busy developing biodegradable credit cards and ecologically sound fire systems that we lost sight of it," confesses Paul Monaghan, who ran the partnership team for the bank.

The bank also draws only 1.8 per cent of its staff from ethnic minorities, when they make up 3.9 per cent of the population in the north-west of England, the Co-op's home region.

Overall, however, the Co-operative Bank believes its partnership audit has produced a ringing endorsement of its ethical and ecological stance.

Questionnaires found, for example, that 89 per cent of staff said they were proud to be employed by the bank and 67 per cent of current account customers said they were very satisfied with the service.

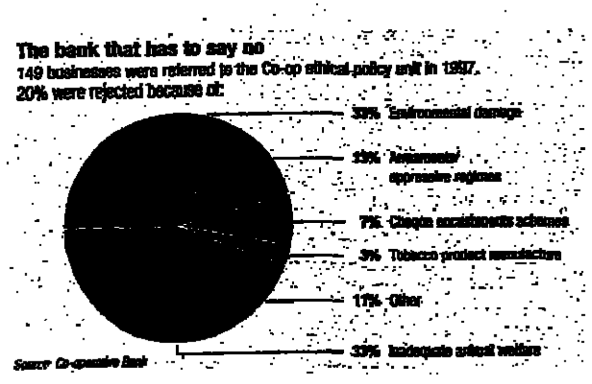
Perhaps most importantly for the Co-op's credibility, the audit concludes that the bank follows through on its commitment not to finance the arms trade, oppressive regimes, exploitative factory farming, the fur trade, blood sports or businesses that use animals for testing cosmetics. "Fox hunts do get turned away – and yes, they do apply," says Simon Williams, head of corporate affairs.

Mr Evans reviewed the procedures for implementing the bank's ethical policy and checked decisions taken on new customers. "I am satisfied, from reviewing a random sample of cases referred by the screening process to the ethical policy unit, that the ethical policy in all cases overrides any consideration of economic advantage to the bank," he says.

If Co-op denies that its social and ethical positioning is just a marketing gimmick, Mr Williams insists that it is not altruism, either. "We are not seeing this as philanthropy or do-goodism or a marketing ploy. There is a deep-rooted belief that there is a business purpose to this – that if we do all these things, better profits will result."

The bank that has to say no

149 businesses were referred to the Co-op ethical-policy unit in 1997. 20% were rejected because of:



Source: Co-operative Bank

NEWS DIGEST

SOCCER WORLD CUP

Storm as French minister invites ticketless fans

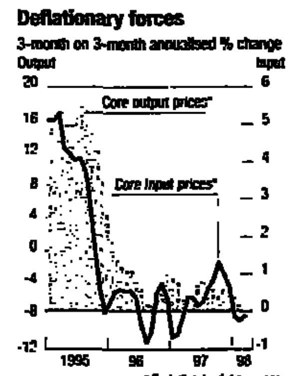
Michelle Demessine, the French tourism minister, yesterday stirred up fresh controversy over the ticketing arrangements for this summer's soccer World Cup when she invited ticketless British supporters to visit France during the month-long tournament. The invitation to fans to "join the party" in France contradicts the policy of the French and British governments, which have advised fans without tickets to stay at home. Only last month the UK government launched a £1m ($1.67m) television advertising campaign aimed at dissuading ticketless fans from travelling to France. The supply of tickets for British fans is insufficient to meet the demand and the authorities are worried about the security implications of having tens of thousands of fans desperate to buy tickets congregating outside stadiums. Mme Demessine not only invited ticketless fans, she also said there would be no checks on the names of ticketholders at stadiums. Previously, the French organisers have warned fans that those found with tickets carrying somebody else's name would be prevented from taking their seats. Patrick Harverson, London

STRONG POUND

Industry's prices kept down

Deflationary forces

3-month on 3-month annualised % change



Source: Datastream/ICV
* Excluding food, beverages, tobacco and petroleum

The strong pound has helped keep the prices of goods leaving the factory gate at their lowest level for more than 30 years. Cheaper imports meant the price of core goods produced by UK manufacturers increased by 0.3 per cent in the year to March – the lowest annual increase since July 1967, the Office for National Statistics said. In March the increase had been 0.4 per cent. The core price index excludes volatile oil production and food, drink and tobacco, which tend to be highly seasonal or influenced by government duties. Overall, manufacturers' prices increased by 1 per cent in the year to March, compared with a 0.7 per cent rise in February. The ONS said manufacturers' raw material and fuel costs fell by just over 10 per cent in the 12 months to March. Imported raw materials make up about 65 per cent of manufacturers' input costs. Richard Adams, London

POLITICAL MEMOIRS

Thatcher rival to publish

Michael Heseltine, the strongly pro-European Conservative who was deputy prime minister in John Major's government, will produce his autobiography in two years, it was disclosed yesterday. It will be published by Hodder & Stoughton, which said there had been a "hotly-contested" auction for the rights. Mr Heseltine, who stormed out of Margaret Thatcher's Cabinet in 1986 and signalled her political demise by standing against her for the party leadership in 1990, has promised a frank account of his 30 years at the forefront of politics.

INDUSTRIAL RELATIONS UNION LEADERS WILL MEET NEXT WEEK TO DECIDE STRATEGY OVER GOVERNMENT'S STANCE ON RECOGNITION

Trade unions edge closer to dispute with Blair

By Robert Taylor, Employment Editor

A confrontation over recognition of trade unions in workplaces is growing closer with the decision of union leaders to meet in emergency session next Monday to decide their strategy.

Union leaders are convinced Tony Blair, the prime minister, intends to push through a union recognition law in line with the demands of employers, who say they want legislation ensuring no return to workplace power exercised by small groups of militants.

The general council of the Trades Union Congress must decide on Monday whether to continue negotiating with the government over the details of recognition on employer terms or affirm their opposition to what is being proposed. Until now the trade unions have remained united against any dilution of Labour's pre-election commitment to recognition.

Over recent months, however, Mr Blair and his advisers have made clear they do not accept the TUC's position that only a majority of workers voting in a ballot would be necessary to secure recognition from a company. The prime minister also wants small companies exempted from any recognition provisions.

Both these positions are in line with those of the Confederation of British Industry and other employer bodies.

Margaret Beckett, the chief industry minister, has presented the TUC with a number of options which propose what majority might be necessary for a union to win a recognition ballot. This could involve a requirement that a majority of the workforce in the proposed bargaining unit, or a majority of those voting, if more than two thirds of the relevant workers, takes part in the ballot.

Alternatively the unions are being asked whether they might accept 40 per cent of the workforce, or a majority of those voting in the ballot, if the turnout is at least 70 per cent, to win a recognition ballot.

As for the exemption for small companies, the TUC points out if companies with less than 50 employees were excluded this would deny 7.4m workers, 37 per cent of the workforce, their union recognition rights. If companies with fewer than 20 employees were exempt this would mean 28 per cent, or 5.6m workers, would not have access to recognition. Union leaders argue some of the worst employers have small workforces.

Some ministers hope to win over the TUC to accept diluted recognition proposals by offering legal protections for more vulnerable workers in the forthcoming "fairness at work" policy paper.

World Bank link to IMF must change, says aid minister

The government's tamed maverick has not abandoned her forthright approach to international affairs, says **Liam Halligan**

"I've not changed – I've always been a serious politician," says Clare Short, the chief international development minister, responding to charges that ministerial office has smoothed her political rough edges.

Ms Short generated enormous popularity as a hot-blooded leftwinger in opposition. She seemed prepared, whatever the consequences, to shout for what she believed – be it a united Ireland or the legalisation of cannabis. But she now faces accusations that her elevation to cabinet has brought with it a move towards hard-headed pragmatism.

"The media just deal in stereotypes," she says. "Now I've started controlling a £2.1bn budget, making policy and getting things done, they say: 'Good Heavens, she thinks'. But I've always been that way."

Ms Short has established herself as a respectable and relatively safe minister, overseeing the Department for International Development with vigour, tempered by caution.

This week she is with Gordon Brown, the chancellor of the exchequer, at the joint meeting of the World Bank and the International Monetary Fund – the annual jamboree of the global development industry.

Relishing the prospect, and with an eye on her reputation for candour, Ms Short shares her thoughts. "We're in a very silly situation. The international institutions are meant to be complementary, but the IMF keeps charging around taking other people's jobs in areas where it's not necessarily competent," she explains.

Ms Short wants the IMF to stick with macroeconomic stabilisation and the World Bank to deal in micro-reforms – "regulation and corporate governance, as well as the social programmes". But, she says, the two should work together to reduce poverty.

"The IMF needs to clarify what it is good at and how it interfaces with the bank. The conditions we place on loans to less developed countries from both organisations should be geared towards poverty eradication."

Short circuit: the minister wants the IMF and the World Bank to reduce poverty Ashley Ashwood

A central topic in Washington is likely to be the Multilateral Agreement on Investment – a plan by industrialised nations for overseas and domestic investors to be treated same.

Ms Short recently raised the ire of aid and environmental organisations by supporting the MAI's extension to developing countries. Many non-governmental organisations call the agreement "an Americanisation charter", arguing it would exploit the world's poor.

"Although the NGOs seek to speak for the poor, their critique is wrong," Ms Short argues.

"Excluding poor countries from the MAI would deprive them of much-needed investment."

She has abolished Britain's "aid and trade" provision of corporate grants for infrastructure projects in developing countries. "For infrastructure investment in the poorest countries, you want a well-regulated private-public relationship," she says.

"So I don't rule out aid money doing supportive work and feasibility studies which would help leverage investment."

Beyond Washington, Ms Short is looking forward to the G8 summit in May – to be held in her constituency in Birmingham, England's second-biggest city.

She remains "hopeful" of persuading overseas colleagues of the merits of debt relief and the multilateral untying of aid flows.

Asked about how she combines a ferocious independence with status in government, Ms Short refers to her "belief in open, honest debate".

Campaign for more TV ads faces division

By Alison Smith, Marketing Correspondent

The organisation representing advertisers in the campaign to get more commercials on television may lose the support of advertising agencies' trade association.

Both organisations – the Incorporated Society of British Advertisers and the Institute of Practitioners in Advertising – say the costs of buying advertising airtime have increased too much over the past few years.

But there are signs of a difference of emphasis between them on how the issue should be resolved.

The ISBA has taken the more hawkish line in arguing the restrictions on minutes allowed for advertising should be relaxed to increase the supply of airtime and so reduce inflationary pressures.

It also seeks longer-term changes to help commercial television channels win audiences back from the BBC, and to give advertisers a greater voice in decisions affecting TV advertising.

Only seven minutes of advertising per hour is permitted during the day.

Within this total, broadcasters can transfer minutes between hours, up to a limit of 12 minutes in any one hour.

The IPA last year backed the ISBA proposal to the Independent Television Commission, the broadcasting watchdog, for a phased increase up to the nine minutes of advertising an hour allowed elsewhere in the European Union. The suggestion was rejected.

But in contrast to the ISBA's increasing pressure for more minutes of advertising, the IPA is focusing on encouraging television's efforts to increase the audiences for its programmes.

The IPA also wants research on whether extra minutes of advertising reduce the effectiveness of the commercials shown. Some advertising executives are concerned that more "clutter" on television will lessen the impact of advertisements.

At the ISBA's annual policy conference last month Michael Heber, chairman of Unilever's advertising committee, said ITV should be ashamed of its airtime inflation rate of more than 40 per cent over five years.

Along with British Telecommunications, Procter & Gamble, Kellogg and Ford, Unilever is one of the UK's biggest advertisers.

Insurance shares fall in wake of flooding

By Christopher Adams, Insurance Correspondent

Shares in insurance companies fell in London yesterday on concerns that the recent floods in central and eastern England could affect profits. River levels remained high after exceptionally heavy rain during the weekend damaged homes and commercial property.

"It's very muddy, very wet, and very expensive," said Graham Crumb of loss assessors Balcombe group, who visited Evesham on the river Avon in the English Midlands yesterday. "Buildings are contaminated with silty water, sewage and other unsavoury aspects of river life."

Analysts suggested yesterday that Royal & Sun Alliance, the largest composite insurer, might have to pay £80m ($135m). The group said it expected up to 10,000 claims, but it would have to pay at most only £75m from its own funds. Reinsurance protection would meet any extra liabilities.

The biggest claims are expected from commercial policy holders rather than domestic ones. "There's major disruption to factories and shops," said Anthony Harris, chief executive of Harris Claims group, the loss assessors. "Water has affected computers and electrics. Business interruption losses will be substantial."

Mr Harris, whose company acts for policy holders, put the total cost of claims at £0.5bn-£1.0bn. Other assessors were predicting a bigger bill, but the Association of British Insurers was more conservative, saying claims would be £400m-£500m.

Fierce competition has forced many insurers to underwrite household cover at much lower rates. Following severe storms at the beginning of this year, companies could suffer a decline in profitability.

London Stocks, Page 30

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OPERA

Artistic journey from Wagner to Glass

Richard Fairman finds Copenhagen consolidating its position on the world operatic map

There is a new brain-drain in the arts. While the board of the Royal Opera struggles to find a general director who might survive longer than six months, British administrators are conquering the world. From Peter Hemmings in Los Angeles to Peter Jonas in Munich, they are exporting the skills that British opera-houses urgently need to keep at home.

In Copenhagen, the artistic director of the Royal Danish Opera is Elaine Padmore – one of various expatriate Brits currently being mentioned for the top job at Covent Garden. Having proven herself during 13 years at the Wexford Festival, Padmore had earned promotion by 1993 and could hardly have been more fortunate than to land an opera house as well funded and widely supported by its public than the one in Copenhagen.

Taking morning coffee on the city's most elegant square, she is keen to sound out the latest rumours coming from London and does no more than raise an eyebrow at some of the most bizarre. From her privileged position in Copenhagen, the problems in Britain must look pretty frightful. Denmark awards its relatively small Royal Theatre almost twice the annual grant that goes to Covent Garden, and for that the audience does not expect Pavarotti or Domingo every other night.

The difficulties she faces are on a more modest scale, although sometimes no less pressing. It must have seemed a good idea to put on a new production of *Tristan und Isolde* as part of the larger plan to renew the Wagner repertoire, an enthusiasm of Padmore's and also of the Danish public at large. The Danes have

Francisco Negrin's imaginative staging had actors abseiling down from the roof and Eurydice murdered by electrocution

produced leading Wagnerian singers since the days of Lauritz Melchior, the century's most renowned Heldentenor, and barely a season passes at Bayreuth these days without them.

Unfortunately, a curse of Wagnerian proportions laid that plan low, when illness carried off both the Tristan and the Isolde just before the opening night. By last weekend Stig Fogh Andersen was well enough to sing, but for all his musicality Tristan needs a singer in robust health to ride the orchestra and Andersen could not muster decibels enough. Sue Patchell, the American replacement Isolde, sang with a bright top register, but less depth of tone in the middle.

The result was a *Tristan und Isolde* that was enjoyable as far as it went, but not the Denmark-takes-on-the-world success that the company might have hoped. Bent Norup sang a sturdy Kurwenal and Christian Christiansen a formidable King Marke if only his top notes were more secure, while the presence of Poul Elming in the tiny role of Melot showed the strength of casting the Danes can manage in Wagner. But the outstanding performance came from the Norwegian mezzo Randi Stene, who sang gloriously as Brangäne. Even standing stock still, she exuded an intensity of feeling that made her character the focal point of the drama.

In keeping with Padmore's mission to open the house to international influences, the producer was the British, ex-ENO David Pountney. From some previous experiences one might have thought a producer had little to do in this opera, but Pountney and his designer, Robert Israel, were restlessly inventive, shifting the love duet around a complex, tripartite set in variegated colours on a whirling stage revolve. His success was to banish stock Wagnerian semaphore acting in favour of a genuinely serious attempt at music-drama.

To that extent the conductor, Dietfried Bernet, was his ally, risking some extremes of speed in the interest of bringing the emotions to the surface. The orchestra of the Royal Danish Opera is one of the company's strengths and it gave a fine account of itself, especially considering the very open acoustics in this small theatre (the opposite extreme to the covered pit at Bayreuth).

★

From there to a converted electricity turbine building 10 minutes up the road is only a short walk, but in artistic terms it signified a major journey. This was where the Royal Danish Opera chose to put on the first Scandinavian performance of Philip Glass's opera *Orphée* (1993), a typically alternative theatre space.

Glass's passion for the films of Jean Cocteau has inspired him to write a trilogy of Cocteau-related works and they feature music of more variety and expressive possibility than is to be heard in his other stage creations. The score of *Orphée* is still recognisably the product of a minimalist, but there are significant stretches where Glass succeeds in getting beneath the skin of those endlessly repeated arpeggios.

The atmosphere of a mysterious world of the afterlife (hints of Fauré's *Pavane*) is palpably caught and in a nicely-turned duet between Orphée and his underworld princess. Glass touches upon human emotions with unexpected feeling.

Francisco Negrin's imaginative staging had actors abseiling down from the roof and (a wry touch) Eurydice murdered by electrocution. The cast was decent, the instrumental ensemble lively, the amplified sound acceptable, though any visitors in the audience had to choose between the singers' murky French and surtitles in Danish. Thank heavens the Danes are such civilised people and always print a synopsis in the programme in English.

Afterlife in an electricity turbine: Susanne Elmark in Philip Glass's 'Orphée'

OPERA

DAVID MURRAY

Jenufa VIR
Hamburg State Opera

Mattila radiant in Hamburg

Utterly compelling: Jan Blinkhof and Karita Mattila as Laca and Jenufa

This season Karita Mattila, the glorious young Finnish soprano, is singing her first Janáček *Jenufa* at the New York Met, the Paris Bastille and the Hamburg State Opera. I heard her, amid a solid cast, in Hamburg last Saturday, and was glad to have been there. (You can still go too: see below!)

Jenufa was Janáček's first great operatic success. The new Hamburg staging – their fifth since 1926: they joined the bandwagon early – looks striking in Frank Philipp Schlössmann's "concept"-led sets, but doesn't altogether gell. A huge barn for Act 1, with its sides converging upon a golden cornfield outside, but also a great stone starting to break through its floorboards: Jenufa is disastrously pregnant, with her lover Steva called to military service before he can marry her.

In Act 2, just after Jenufa has given birth in secrecy, the walls have closed round, and the giant stone has burst through to dominate the stage. By Act 3, when Jenufa's stern stepmother (the "Kostelnička", or female sacristan) has drowned the baby to enable a decent new wedding, the stone has broken into harmless little rocks, with the walls drawn back to reveal freshly plowed fields.

Yes, we take the point; but why represent it twice over, when the words and music already tell us everything? The Kostelnička's prim cottage here becomes a primitive cavern, and the ceremonious wedding in Act 3 a picnic on the rocks. In the circumstances, the producer Olivier Tambosi has coped well and bravely.

Jenufa's tenor lovers, both Dutch, are young Albert Bonnema as the faithless Steva, fecklessly charming, and the veteran Jan Blinkhof, whose staunch, angry Laca may look over-age but sounds splendid – a clean, ringing line, steely conviction. The soprano Eva Marton sings the Kostelnička with towering passion, more than enough to compensate for some threadbare tone. Old Grandmother Buryja is affectingly portrayed by Olive Fredricks; all the smaller roles are well taken, without a hint of caricature.

And Mattila's Jenufa is unimprovable. She looks wonderful – tall, slim, fragile – and though I cannot vouch for her Czech, her every phrase bespeaks anxious sincerity. She never over-sings: much of the role is delivered in intimate, conversational style. When the voice opens up into full, unflecked cry, however, it is thrilling to hear, and utterly compelling. Peter Schneider conducts with sterling efficiency, but he uses (I think) the old Kovařovič version of the score, with "retouchings" that are often too strident. Especially at the ending: would be more moved if our ears were less battered.

Further performances on 18, 22 and 25 April, May 2.

The Bullet by name, but not by nature

THEATRE

ALASTAIR MACAULAY

The Bullet
Donmar Warehouse, London WC2

Like father, like son? Joe Penhall's new play, *The Bullet*, is about psychological tendencies passed from parent to child; about features whereby three apparently dissimilar men keep showing that they are in fact all too closely related. Especially in the most dismal parts of their behaviour. They tell rose-tinted lies rather than face facts, they blame others for everything, they make appalling emotional demands. Could be an interesting theme: but Penhall writes with such chilly detachment that most of the time my reaction is: dislike father, dislike sons. Don't much care for their womenfolk either.

Penhall has talent; he has already shown himself one of the most interesting *young writers rising through* London fringe theatre. By the end of *The Bullet*, he has made four of his five characters – Charles and his wife Billie, their sons Mike and Robbie – remarkably complex.

What's more, he has made us see several facets of the family situation by contrasting lights; we see what has been repressed. Charles is a sub-editor refusing to accept the fact that he has been made redundant; his son Mike has lived as a tramp and drunk around London for five years, and his son Robbie pretending that he has a bright job in Asia. Charles competes with his sons and visits his aggression upon them. When they start to show the same compulsive lack of realism as his, he blames them for declining from the bright boys he loved; when he

The ponderous expressionism clobbers us regularly with Serious Points

catches them enjoying themselves, he tries to compete or imitate.

Penhall is too dramatically calculating in delineating his characters' verbal patterns. *Charles forever says* "I'm Mr This, I'm Mr That", and calls Robbie's girlfriend Carla "Carol": she keeps lapsing into long-winded sociology-speak. In a play that tries seriously to show pathos it is a pity that Penhall sometimes tries to reduce people to pettier patterns of speech.

The play has suspense; but takes its time to get going. In retrospect, you see how much information he plants in the opening scene. As the play develops, we start to see how deep this family's psychological patterns go, but the larger rhythm seldom goes faster. There is a ponderous expressionism beneath the naturalistic surface, clobbering us at regular intervals with Serious Points. Penhall writes, in short, as if he wished to be the English Arthur Miller.

Director Dominic Cooke and his five actors all work hard. But Howard Harrison's lighting adds excessive contrivance. Neil Stuke is more callow than even the callow Robbie need be; and Emily Woof could not persuade me that her Carla would talk in that sociological vein. Miles Anderson's acting as Charles is stirring but also, at times, schematic.

The most impressive performances are both highly economical. Barbara Flynn is Billie: without effort and almost always with spontaneity, she brings both wit and pain to every episode. *And Andrew Tiernan brings* a force to Mike that is both raw and soft. His inflamed face is haunting, and he listens and speaks with the impolite spontaneity of one who has lived in an urban wilderness.

If I could, I would tell you why Penhall called it *The Bullet*; but I have no clue. This is a too neat play with a too heavy pulse about too unsympathetic people.

INTERNATIONAL Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
Ornament Prints: serving as a source of inspiration to craftsmen, artists and patrons, these prints provided information about the fashions and designs of other cultures. This selection of the finest examples is accompanied by related objects such as furniture and silverware; ends on Sunday

BALTIMORE

EXHIBITION
Walters Art Gallery
Tel: 1-410-547 9000
Monet: Paintings of Giverny from the Musée Marmottan. 22 paintings produced during the last 23 years of the artist's life. Photo murals and works from the collection will be shown alongside the touring works; to May 31

BELFAST

OPERA
Grand Opera House
Tel: 44-1232-241919
The National Opera of Latvia: Nabucco, by Verdi; Apr 15, 16

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Roger Norrington in works by Haydn and Knussen; Apr 20, 21

Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Liszt, Schumann and Beethoven; Apr 16

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Der Prinz von Homburg: by Henze. Conducted by Christian Thielemann in a staging by Götz Friedrich; Apr 16
● Parsifal: by Wagner. New production conducted by Christian Thielemann in a staging by Götz Friedrich; Apr 19

Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Die Meistersinger von Nürnberg: by Wagner. Harry Kupfer's new production is conducted by Daniel Barenboim and Sebastian Weigle; Apr 19

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Donald Runnicles in works by Wagner, Haydn, Pärt and Britten. With cello soloist John Sharp; Apr 15, 16, 17, 18, 21

FORT WORTH

EXHIBITION
Kimbell Art Museum
Tel: 1-817-3328451
www.kimbellart.org
Renoir's Portraits: Impressions of an Age. More than 60 paintings spanning the artist's career, of subjects including Claude Monet and Madame Renoir; to Apr 26

HELSINKI

EXHIBITION
Museum of Foreign Art, Sinebrychoff
www.fng.fi
Luxury: Gold and Jewellery of Pompeii: 150 items including pendants, rings and bracelets, displayed to mark the 250th anniversary of the beginning of the excavations; to May 31

KORIYAMA

EXHIBITION
Koriyama City Museum of Art
Tel: 81-249-56 2200
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. A member of the fin-de-siècle avant-garde, Beardsley left England for Dieppe following Wilde's disastrous libel action and subsequent imprisonment in 1895. The exhibition marks the centenary of Beardsley's tragically early death, aged 25, and arrives at the V&A in October, after touring in Japan; to May 5

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Michael Tilson Thomas conducts works by Mahler, Ives and Bernstein; Apr 17

Royal Festival Hall
Tel: 44-171-960 4242
● London Philharmonic Orchestra: conducted by Paavo Järvi in works by Beethoven, Mozart and Mahler. With violin soloist Frank Peter Zimmerman; Apr 15
● Philharmonia Orchestra: conducted by Mikhail Pletnev in works by Tchaikovsky and Berlioz. With violin soloist Victor Tretyakov; Apr 16
● London Philharmonic Orchestra: Ben-Hur. Projection of the 1925 film with live performance of Carl Davis's Score, conducted by the composer; Apr 18
● English Chamber Orchestra: conducted by Pinchas Aukerman in works by Dvorák and Mozart, with piano soloist Iyuko Nakamichi, and by Shuntaro Sato in Bartok's Viola Concerto, with Zukerman as viola soloist; Apr 20
● Philharmonia Orchestra: conducted by Mikhail Pletnev in works by Berlioz and Tchaikovsky. With mezzo-soprano Jean Rigby; Apr 21

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Bonnard (1867-1947): major retrospective of the French painter, comprising more than 100 works including landscapes, still lifes, a series of nudes depicting Marthe, Bonnard's lifelong companion, and several self-portraits; to May 17, then transferring to New York

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Linda di Chamounix: by Donizetti. Co-production with Vienna Staatsoper conducted by Roberto Abbado in a staging by August Everding; Apr 15, 17, 18

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Günter Wand in works by Schubert and Bruckner; Apr 19, 20, 21

OPERA
Carl-Orff-Saal, Gasteig
Tel: 49-89-4809 8508
Vision of Lear: by Toshio Hosokawa, with a libretto by Suzuki and Hosokawa. Co-production of the Munich Biennale with the Shizuoka Performing Arts Centre; Apr 19, 20,

NEW YORK

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Paul Bunyan: by Britten. New production directed by Mark Lamos and conducted by Stewart Robertson; Apr 18

PARIS

EXHIBITION
Musée Carnavalet
Tel: 33-1-4272 2112
Chaumet: showcase of *objets d'art* made by the Parisian jeweller from the age of Napoleon to the present. Where possible, portraits of the owners wearing them are shown alongside the jewels themselves. Highlights include the extravagant parures – matching sets of tiaras, necklaces, earrings and bracelets – created for 19th century European aristocrats; to Jun 28

PHILADELPHIA

EXHIBITION
Philadelphia Museum of Art
Tel: 1-215-763 8100
www.philamuseum.org
Self-Taught Artists of the 20th Century: An American Anthology. 300 works by more than 30 artists, all of them without formal training. Includes paintings, sculpture and installations by artists ranging from Grandma Moses (1860-1961) to Ken Grimes (b.1947). Organised by the Museum of American Folk Art, the exhibition will transfer to Atlanta; to May 17

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
● "No one's dogs": 100 Years of Swedish Art. 100 works, specially selected to trace the history of modern art in Sweden; ends on Sunday
● Wounds: Between Democracy and Redemption in Contemporary Art. The inaugural exhibition in the museum's new building examines developments in the visual arts from the 1960s to the present. Includes works by Francis Bacon, Andy Warhol, Gerhard Richter and Per Kirkeby; ends on Sunday

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

LIONEL BARBER
EUROPEAN VIEWPOINT

Life after Boris

The imperial presidency that Mr Yeltsin created to safeguard Russian reform is becoming an issue for the European Union

The Tsar pulls uphill with the strength of 10 men, but millions pull downhill – Ivan Pososhkov on Peter the Great.

Boris Yeltsin has been written off more times than Helmut Kohl. Russia's veteran leader has survived double pneumonia, quintuple heart by-pass surgery, two attempted coups, Communist party exile, snubs from the Bush White House, and a dunk in the Moscow river.

So the odds are reasonable that he will survive his latest stand-off with the Russian Parliament. Hot air threats of impeachment will evaporate. The risk of early parliamentary elections and the attendant political uncertainty are likely to recede. Russia will continue to lurch forward with economic reform.

This benign interpretation of events could lead to dangerous complacency. Mr Yeltsin's snap decision to sack his entire cabinet – including Victor Chernomyrdin, his long-standing prime minister – should be a wake-up call to the European Union. Russia, huge, heavily armed, and endlessly unstable, demands attention.

Ostensibly, the struggle in Moscow centres on the suitability of Mr Yeltsin's nominee for prime minister, the youthful Sergei Kiriyenko. What is really at stake is the power of the imperial presidency which Mr Yeltsin created to safeguard Russia's tenuous transition to democracy.

Rightly or wrongly, Mr Yeltsin believes that his own brand of Tsarism is the best instrument with which to goad an inert body politic into the modern age. A brilliant manipulator, he has concentrated power around a coterie of personal advisers rather than the formal office of the Cabinet. Yet this very concentration of power means that the question of the succession assumes increasing importance.

There is virtually nothing the West can do influence who will be the next Tsar, assuming Mr Yeltsin does not try to seek another term in 2000. But the West can influence how he might respond to the pending expansion of Nato and the European Union into central and eastern Europe. The West can also help create conditions to ensure that reform in post-Communist Russia is irreversible.

The first step is to cement a relationship with Russia which goes deeper than personalities. Nato has worked hard to achieve this. The new 16-plus-one partnership offers Moscow a seat at the table in matters of European security. It goes some way to assuaging Russian opposition to membership for the Czech republic, Poland, and Hungary. More debatable is whether Nato could finesse unremitting Russian hostility towards further expansion eastwards, say, to the Baltic states.

A second step is to continue integrating Russia into international institutions and the global economy. Russia's attendance at the Group of Seven industrialised nations is a useful step. Russian membership of the World Trade Organisation, is even more essential, provided that it can satisfy the necessary conditions.

Less useful are French-inspired gimmicks such as the new triangular summits between France, Germany and Russia. These stroke the Russian leader's ego but they revive fears in Washington about the big European powers conspiring to weaken American engagement in Europe.

Here is where the EU has a vital role to play. The Partnership and Co-operation agreement with Russia, which finally entered force at the end of last year, is a solid foundation on which to build.

Long delayed because of the war in Chechnya, the agreement deepens political, economic, commercial and cultural ties. It improves access for Russian exports and contains an admittedly ambitious provision for negotiations for a future free trade zone.

Influential voices such as Prime Minister Paavo Lipponen of Finland argue that the agreement does not go far enough. Relations between the EU and Russia come down too often to disputes over carpet exports or cheap vodka. These tiffs obscure the fact that the EU is by far Russia's biggest trading partner.

Mr Lipponen is pressing for a new "Northern dimension" to the EU's embryonic common foreign policy which reflects adequately the strategic importance of Russia. He is already planning to put his ideas for how to do this to the December 1999 EU summit in Helsinki, when Finland will be in charge of the rotating EU presidency.

Some suspect that such an initiative is self-serving. Calls for extra money to fund trade and development in a region stretching from the Nordic nations to the Urals and up to the Arctic Circle – through new railways, trans-border roads and pipelines – would naturally favour Finland. But there are good reasons for considering a bolder approach.

Within 20 years the EU is likely to depend for up to 70 per cent of its natural gas on deposits in the Barents and Kara seas. In the Kola peninsula, just across from Finland, rotting nuclear powered ships and submarines are an environmental catastrophe in the making.

But by far the most powerful argument in favour of beefing up policy lies in the EU's decision to offer eventual membership to the three Baltic states: Estonia, Latvia and Lithuania.

The implications of this commitment are only starting to percolate through the Brussels bureaucracy and go far beyond the extension southward of Finland's (and therefore the EU's) 1,000km border with Russia. An unpublished Finnish government study underlines the degree to Russian foreign exports are increasingly dependent on the ports of the Baltic states, and how the Baltic trio remain highly dependent on Russian energy, especially natural gas.

In the first case, Russian efforts to encourage more traffic to use its own ports are being hampered by a shortage of public funds; in the second case, the Baltic states desire to diversify energy supplies – perhaps through a new Baltic Ring built by west European power companies – can only be achieved at huge cost.

Dependence on Moscow is something which newly-liberated countries are loath to admit. Indeed, they take every opportunity to proclaim their independence. The Latvian government, in particular, has risked provoking the Russian government with a less-than-sensitive treatment of the large Russian minority.

The Baltic connection means that the EU will be drawn closer to Russia and vice-versa. No one is talking about Russian membership of the Union. Swallowing the equivalent of a continent is not the first item on the Brussels menu.

Yet the EU needs to ponder the next steps in its relations with Russia to fit alongside its other strategic commitments such as the single currency and eastern enlargement. It is time to prepare for life after Boris.

PERSONAL VIEW GARY HAMEL

Wrong merger, wrong logic

Citicorp and Travelers are joining forces for economies of scale but they will be selling their customers short on choice and innovation

The merger between Citicorp and Travelers seems to be driven by two tired ideas: bulk and breadth. Both are highly suspect.

Consider the most successful companies. Southwest Airlines. Starbucks. WorldCom. Dell Computer. Charles Schwab. They are heretics: they are revolutionaries. Their success in manoeuvring around much larger competitors underscores a fundamental reality of the new economy: innovation is more important than sheer size. Yet somehow this basic truth seems to have become lost in the hype surrounding "the world's biggest merger".

Citicorp and Travelers are certainly not resource constrained, but where are the big new ideas behind the big new company? The idea that customers want to buy everything from one provider is no more credible than the notion that size trumps every other advantage. About all one can say is that Sandy Weill of Travelers and John Reed of Citicorp share the same fantasy: that one company, offering a bundle of tenuously related financial services, can somehow seduce customers into buying the whole shooting match, whether or not each product is truly a "best buy".

The name for this dubious dream is "cross-selling". The logic is simple enough: If I know a lot about you, and I own a critical point of customer contact – say a branch bank – I can sell you a boatload of semi-related services. To the extent that the Citicorp-Travelers merger is based on the hope that the groups will be able to cross-sell each other's products, the merger rests on a foundation of sand.

What makes the idea of cross-selling so insidious is that it is half-right. Customers do want to conserve their energies when they shop. They like, for example, to be able to buy a pint of milk and a gallon of gas at the same service station. It is also true that what you learn about a customer in one selling context can sometimes be profitably exploited in another. A real estate broker, for example, can be ideally placed to help a house buyer with a mortgage and house insurance.

But here's the rub: cross-selling works only when what is being sold really is a collection of the best. In today's world of sophisticated, informed customers, even great products will not tug mediocre ones along with them.

And there is another rub: using customer information gained in one context to pitch products in another is likely to cause serious aggravation to customers. How much does your banker or your life insurance agent really know about your overall financial situation and financial needs? The average bank teller cannot calculate what I'm worth to the bank as a customer, so what is the chance that he or she knows what I need from today's cornucopia of financial services? The choice of financial products has never been broader. Customers increasingly demand a subtle and diverse blend of financial services tailored to their needs. The chances that a single company can offer any particular customer an ideal portfolio of products and services – even a company as big as the new Citigroup – is close to nil.

It is not that bundling will not happen – it will. But the companies that bundle financial services are going to have to offer independent advice; they are going to have to be independent of the producers of financial products. You would not go to a travel agent that sold only Holland America cruises. You would not go to a bookstore that sold only Simon & Schuster books – no matter how broad their catalogue. If Auto-By-Tel, the Web-based car seller, offered only Fords it would be an irrelevance, rather than a harbinger.

Consumers want independent advice, and "vendor-neutral" distribution channels. This is the secret to the success of Charles Schwab's One Source, an eclectic mix of mutual funds put together in a way that lets customers mix and match products from a wide range of financial service providers.

The fundamental flaw of most cross-selling arguments is that they are based on the pursuit of distribution efficiencies. The object of cross-selling is to amortise a company's expensive distribution assets across a broad set of products. In this sense, Wal-Mart Stores, the biggest retail chain in the world, is just a huge exercise in cross-selling. But there is a critical distinction: Wal-Mart is independent of the vendors, and agnostic about the products it offers. (It is not trying to sell me Kodak film, Kodak cameras and Kodak videotapes all in one go.)

True, Wal-Mart reaps huge economies of scale in distribution by offering everything from groceries to electronic equipment at one location. But in the next few years these "distribution economies" will take a back seat to "search economies" – savings on the amount of time, trouble and money it takes to find what you want.

As a consumer you can waste hours wandering the canyons of Wal-Mart in search of that elusive can opener. While you will save a few bucks on your purchase, the costs of getting to the store, finding what you need and carting it home – your search costs – might well outweigh whatever discount you receive.

When I use Amazon.com, or Insuremarket.com, or Netgrocer – Websites that do pretty much what their name implies – I reap search economies. I find what I need instantly, I waste no gasoline and, best of all, someone delivers it to my doorstep. Increasingly, search economies will trump distribution economies. To test this idea, ask yourself, what is the premium you are willing to pay for a pizza delivered to your door against one you have to pick up from the super-market?

Cross-selling is a producer-driven strategy in an increasingly consumer-driven world. It is simply out of touch with the times.

As the explosion of online stock trading demonstrates, financial products are ideally suited to online selling. It is not clear yet who is going to be the Amazon.com of financial services, but it is probably a company no one has heard of yet. I await its arrival eagerly. It would be great to have a neutral broker who could analyse all my financial needs, and recommend an ideal portfolio of the very best financial products available.

So John Reed and Sandy Weill are trying to make the best of a bad situation. Banks, with their plush carpeting, shiny vaults and wending queues of customers are mausoleums-in-the-making. Traditional stock and insurance brokers will be equally anachronistic within a decade or two. All those expensive retail banking locations; all those insurance agents huddled in their strip malls: these are hardly the channels of the future. So chop the overhead and try to sell your product bundle to customers too lazy or too ignorant to search out the best.

But remember this: despite Wall Street's enthusiasm for mega-deals, size is not the ultimate competitive advantage. Just ask IBM, McDonald's, General Motors or AT&T. While there is still room for consolidation in the US financial services industry, it is hard to see how two behemoths are going to gain much in the way of economies of scale by merging, particularly when there is not a lot of overlap in their product or geographic profiles. Neither Citicorp nor Travelers suffers from the curse of smallness.

In the new economy, innovation is the ultimate competitive advantage. Non-traditional competitors, not global competitors, pose the biggest risk to incumbents such as Citicorp and Travelers. Jamming together a commercial bank, brokerage company, investment bank and an insurance company does not count as innovation – at least not among the constituency that matters most: consumers.

The author is chairman of Strategos, a strategy innovation company, and on the faculties of the London and Harvard Business Schools

LETTERS TO THE EDITOR

Depth of Asian crisis due to panic more than economics

From Mr Steven Radelet and Professor Jeffrey D. Sachs.

Sir, We were pleased to see Paul Krugman's recognition ("Start taking the Prozac", April 9) that Asia is suffering from a financial panic, and not simply the bursting of an unwarranted financial bubble, as he had earlier suggested. The difference is important: in a panic, as is now under way, the extreme contraction of economic activity is a serious social loss, not simply the end of unwarranted speculation as with the bursting of a bubble. For several months we have been making the argument that Asia was hit by panic, and that while Asia economies had flaws that needed mending, those weaknesses didn't come close to accounting for the depth of the crisis.

The central role of financial panic in the crisis has two key implications. One, not discussed by Krugman, is that the remedies of the International Monetary Fund should have been attuned to the realities of market panic. The IMF's policies of immediate bank closures in Indonesia in early November merely fanned the flames of panic, and ultimately led to the melt down of the Indonesian banking system. Second, as discussed by Krugman, and as we ourselves have suggested in two recent studies, there is a case for slowing down the flows of hot money in the international economy.

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Equity not the priority

From Mr Andrew Leeming.

Sir, Your editorial, "Banks need more equity" (April 8), raises a number of important issues. However, higher capital levels would not necessarily be in the best interests of bank shareholders, depositors or borrowers.

Banks don't need more capital, they need three things. First, a regulatory framework that embraces the concept of capital at risk based on the credit risk of a loan portfolio i.e., a framework that does not view all commercial loans as having the same credit risk (as is the case in the Basle accord). Second, as it is usually liquidity problems that cause banks to fail, banks require a regulatory framework that measures liquidity risk as well as credit risk. Third, policymakers and regulators need to level the playing field so that banks can compete on equal terms with non-bank competitors (which are not subject to the same capital requirements as the banks).

As certain aspects of the Basle accord are incommensurable with the commercial challenges facing bankers today, it is understandable that banks continue to pursue capital management techniques that are popularly viewed as a Pandora's box.

Andrew Leeming,
regional head of banking research, Asia,
ING Barings Securities (Singapore),
Singapore

Sell-offs are a reflection of weakness in business culture

From Mr Hanns Günther Bollig.

Sir, As much as I agree with Tony Jackson ("Selling off the silver", April 11-12) that nationalism is no argument for or against the sale of Rolls-Royce into foreign hands, as much do I disagree with his view that "in a world of intellectual capital, added value tends to be retained by the workers themselves".

Successful companies try to shift away from the label "made in Germany/UK/US/Japan . . ." to "made by BMW/Mercedes/Toyota . . .", thus de-emphasising national content and work force and emphasising management know-how and the way of running a business. This is why the continuing sales of British automotive and engineering companies to foreign groups are of concern, because it could indicate that elements of the national business culture or other national socio-economical factors may not particularly support continuous success in these industries.

While globalisation leads to greater concentration of businesses in the hands of those nations whose business culture supports these particular industries, Britons and the British automotive suppliers may have to ask themselves which elements of their business and management culture need to be changed – or strengthened – to beat this trend.

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No room for two kings on the throne

From Mr A.P. Williams.

Sir, It is hard to know whether to be more appalled by the hubris of Messrs Sandy Weill of Travelers Group and John Reed of Citicorp, or by the naivety of your reporters and the analysts they quote in story "Sharing power at the top may prove the biggest threat" (April 8): neither a "correct performance management process" nor the fact of "very little overlap in their areas of expertise" are likely to prevent two men long accustomed to unbridled power from fighting it out to the end for supremacy.

The examples of Shell and Unilever are totally irrelevant, as these are companies where executives are reared in a consensus-driven culture based on power-sharing, utterly different from the US model.

This is a beautiful demonstration of why financial expertise is a necessary, but never a sufficient, basis for understanding what goes on at the top of companies. Over my consulting career I have seen at first-hand several cases of purported power-sharing by executives from different cultures break down irreparably.

I can therefore assert as a stone-cold certainty that, if the merger between Travelers and Citicorp goes through (by no means a sure thing), one or both of the two current CEOs will be gone within the space of two years: there simply is not room for two kings on a throne, and it is a very expensive folly to imagine otherwise.

A.P.Williams,
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Mahathir not attacking the market

From Dato J.M. Amir.

Sir, I refer to your report "Mahathir reviews market attack" (April 5). I was present at Dr Mahathir's press conference and heard the keynote address "Building the New Asia-Europe Partnership" by Dr Mahathir Mohamad, Malaysia's prime minister, at the Gladstone Library. Your headline gives a misleading impression.

Dr Mahathir's views on the negative effects of currency trading which has caused the loss of billions of dollars to Malaysia as a result of the Malaysian ringgit losing its value compared to US dollars should not be interpreted as an attack on the currency traders or dealers.

Indeed, he was referring to the need for transparency in currency trading and for stability in the money market, a view which was shared by the leaders attending ASEM 2.

As reflected in the statement on the "Financial and Economic Situation in Asia" issued by ASEM 2, the leaders had inter alia called for "strengthened co-operation, regulation and supervision in financial sectors and an examination by the International Monetary Fund and international regulators' bodies of ways to improve transparency in financial and capital markets, including the possibility of monitoring short-term capital flows".

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Snow White – now there's a better analogy

From Mr Jack Campbell.

Sir, References to the Goldilocks economy are now so regular in the FT that perhaps memories need a little jogging. Goldilocks, you will recall, trespassed on private property, stole porridge and squatted. When the three bears came home, in recent versions of the tale she fled the scene of the crime and disappeared like Martin Bormann and Lord Lucan. In older versions of the tale, somewhat more salutary, the bears variously throw her into a fire, drown her and throw her off the top of a belltower. What this tale has to do with the US economy beats me.

By contrast, Snow White, also a trespasser and a thief, ends up paying her way by working. She also carries on living with seven men, albeit dwarfs, and then dumps them for a (rich?) prince.

When your journalists refer to Goldilocks, perhaps they mean Snow White?

Jack Campbell,
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View of Algeria ignores wider responsibility

From Mr A. Benyamina.

Sir, Your editorial, "Algerian rights" (April 6), tends to reduce the situation in Algeria to a simple human rights problem for which the government – and not the regime as you state – is responsible. This is a familiar stance on the part of those who do not wish to assume their responsibility vis-a-vis terrorism and its support networks in Europe. There have been several arrests recently from among these networks in certain European capitals which have proved their implication in the killings and massacres in Algeria.

Numerous parliamentary delegations, including one from the European parliament, have visited Algeria. They have all taken note of the progress made in the democratisation process and have come to the firm conclusion, especially in the case of the European parliament, that an international investigation would not be helpful, given that the identity of the authors of these massacres is known.

For its part, the government, as signatory to 23 human rights conventions, intends to fulfil all the obligations which are consequently its responsibility. It has therefore submitted a report on each documented case of human rights violation and the sanctions taken by it. Nothing in these contractual obligations compels Algeria to accept a special rapporteur.

Furthermore, in your reference to arms supplies, there is a clear contradiction in wanting to deny the means of fighting terrorism to a state and to reproach it at the same time for not fighting it efficiently enough.

If one follows your logic through to its inevitable conclusion, there would be a situation where only terrorists would be certain of finding weapons, which in fact come to them from Europe.

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Role of two communities in Belgian federal structure overlooked

From Ms Brigitte Grouwels.

Sir, May I congratulate you on your survey of the Brussels region (March 31). It provided an interesting analysis of the opportunities Brussels offers, and of the challenges it faces. I was surprised, however, that your survey focused exclusively on the regional units and overlooked the two main entities that form the basis of the Belgian federal structure: the Flemish and French communities. The competencies of these communities and their institutions are not restricted to the Flemish and Walloon regions, respectively, but extend to Brussels.

The Brussels capital region is responsible for "territorial" issues, such as public transport, economy, employment and the environment. Many other vital issues, (education, job training, arts and cultural matters, youth affairs, etc.) are the responsibility of the Flemish and French communities, also within Brussels. This means that schools, community centres, theatres and the like in Brussels are supported by the French or Flemish community, not by the Brussels region. For the Flemish government this represents an investment of more than BFr13bn (1997 figures) in its capital Brussels. The Brussels capital region has, much to its credit, developed dynamic policies within its sphere of competence. But the contribution of the two communities in revitalising Brussels should not be overlooked.

Finally, I must point out a few factual errors in your survey. First, there are no reserved seats for Flemings and French-speakers in the Brussels regional council. And the directive of Flemish interior minister, Leo Peeters, does not challenge the constitutional status of the the Flemish communes with linguistic facilities for French-speakers. Rather, it is meant to enforce a strict interpretation of these facilities, and to prevent certain political parties from challenging the constitutional position of these communes as an integral part of the Flemish region.

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Wednesday April 15 1998

IMF's rosy scenario

Calamity in east Asia; world economy unharmed. This is surprisingly close to what the International Monetary Fund says in its latest World Economic Outlook. It expects a slowdown in global economic growth this year, but one that is far smaller than in the mid-1970s, early 1980s or early 1990s. The question is whether the IMF is being too optimistic.

The story is comforting. True, global growth this year is now forecast to be 1.2 percentage points lower than last October, while the forecast for the high-income countries is down 0.5 percentage points. But this downgrading is almost entirely confined to east Asia.

In Japan, for example, no growth is forecast for this year, against the 2.1 per cent expected last October. The downward adjustment in the forecast growth of newly industrialised Asian economies is 4.2 percentage points, while that of Asian developing economies is little less, at 3 percentage points.

Meanwhile, all big industrial countries, except Japan, are forecast to grow by more than 2 per cent this year, with the US at 2.9 per and the European Union at 2.8 per cent. Given their economic weight, sustained growth in the US and renewed growth in the EU virtually guarantee that even the Asian disaster will be but a blip on the global radar screen.

What are the risks to this rosy scenario?

One is that Japan's renewed stagnation may turn into an outright slump. While conceivable, such a disaster is unnecessary and, as the government acts, increasingly unlikely. Another is renewed instability in east Asia that then spreads to other regions. While possible, particularly if Indonesia fails yet again or China decides on a substantial devaluation, this does not seem likely either.

The biggest worry is global deflation. But here again massive policy errors would be necessary. The route to disaster might go via inflationary pressure in the US and UK, large deteriorations in their current accounts and weakening exchange rates. This could lead to monetary tightening, followed by a spreading collapse of overheated stock markets. But the IMF expects the Asian slowdown to help keep inflation down everywhere. It also forecasts the US current account deficit this year at only 2.7 per cent of GDP and that of the UK at 1.1 per cent.

So, except in hapless east Asia, everything seems to be for the best in the best of all possible worlds. Remember, however, that the most serious risk lies in fragile financial systems. Mainstream forecasters have proved bad at forecasting such calamities. Take heart from the IMF's view, but remember its proven capacity for error.

Indonesian hopes

Even with its new International Monetary Fund programme, Indonesia is expecting its economy to shrink by 4 per cent this year. Without that programme the outlook would be worse by a long measure, and the survival chances of the Suharto regime would be correspondingly diminished.

That must be the main reason for hoping that last week's package – the third since last October – will succeed where the previous two have failed. The hostile international response last February to Mr Suharto's idea of a *currency board peg for* the rupiah shows there can be no quick fixes for Indonesia's problems. Nothing apart from an IMF programme can stop the economic rot that has otherwise been propelling Indonesia towards an economic contraction of somewhere between 10 and 20 per cent.

Success is still not assured, though the reputation of the IMF is also at stake. Results depend on the detail both of design and implementation of the programme. Little of this is yet clear, but at least the basic thrust appears to correct some earlier mistakes.

Consideration is given to the need to maintain food subsidies if unbearable social tensions are to be avoided. Less emphasis is placed on the abolition of monopolies, although they are still supposed to be gradually unwound. For the first time the IMF has accepted the need to tackle the country's massive private debt. That was one of the most glaring omissions from the last programme, and one of the main reasons why it foundered.

But progress is unlikely to be quick given the disarray on the committee of international creditor banks which has forced its original chairman to step down. Equally, the details of domestic banking reform are hazy, while the programme also rests on the optimistic assumption of a steady stream of privatisation revenues.

Since most of Indonesia's banks and companies are technically bankrupt, it would not be easy for even the most committed government to live up to such a programme. The fact that the IMF has chosen to stagger disbursement in line with Indonesia's compliance with specific conditions indicates it has reservations about Mr Suharto's commitment. At worst this could create a climate of almost continuous confrontation with the government.

Given Indonesia's past record, there is not large ground for optimism, but Mr Suharto is at least now surrounded by a cabinet he trusts. Its members have studied and accepted the programme. Self-interest points to the realisation that he is more secure with an IMF deal than without one.

Swedish budget

Sweden yesterday unveiled a budget which will give it one of the strongest fiscal balances in the EU for some years to come. This caps a remarkable turnaround, after a crippling recession in the early 1990s. From a deficit of over 12 per cent of GDP in 1993, the budget should be in surplus by 0.8 per cent this year.

But the current health of the economy does not compensate for the fact that for some years now Sweden's relative economic performance has been deteriorating. Its position in the OECD's ranking of GDP per capita has slipped from fourth in 1970, to 16th in 1995. And the upturn in the economic cycle has so far failed to deliver substantial new jobs.

One reason for this underperformance has been economic instability. The past two decades have been plagued by episodes of overheating and inflation, followed by devaluations. These cycles were accompanied by huge shifts in the budget balance.

The Social Democratic government is well aware of the need to avoid boom and bust economics, and is therefore placing great emphasis on its long-term projections for the public finances. The budget promises a fairly sharp reduction in central government expenditure as a percentage of GDP, and sizeable fiscal surpluses for the next few years.

These projections, though, have been based on fairly optimistic forecasts of GDP growth, starting from a healthy point in the cycle. The real test will be whether public expenditure can be kept under control when the next downturn comes. Still, the government has made a good start.

Another key reason for Sweden's relatively weak performance has been its lack of success in encouraging new firms. Small and medium-sized businesses are a major source of new jobs in many developed countries. But in Sweden, they have failed to flourish for a number of reasons, including the high taxation on both the owners of firms and on employees, and the subsidies that large firms receive. The Social Democrats say that they will encourage small business, but the relatively modest measures in yesterday's budget show that they are still not taking this problem seriously enough.

Some might argue that the centrist Swedish model is simply defunct. But Swedish voters have made a conscious social choice to trade off higher taxes for better services and to aim for high-skill jobs. There is no conclusive evidence that this condemns them to permanently low growth.

In practice, though, the model has become an excuse for a creeping expansion in the role of the State and for a poor industrial policy. It must be reformed if it is to survive.

One man's meat

Genetically modified crops are becoming the new barriers to free farm trade, says Guy de Jonquières. This is symptomatic of a new sort of trade dispute, pitting globalisation against local values

American protests at European barriers to farm trade are as old as the Common Agricultural Policy. But these days, Washington has something new to complain about. Its fiercest disputes with Brussels have not been provoked by, say, quotas or by any of the other instruments for limiting farm trade, but by European suspicions that one man's meat may be, literally, another man's poison.

The sharpest discord is over European reluctance to allow novel types of food, of which the US is the biggest producer, to be sold in its market. Long delays in approving products, such as genetically modified corn, have raised US frustration to boiling point and repeatedly threatened a trade war.

Brussels says these foods must be thoroughly vetted, because European consumers are deeply worried about their safety standards. But the US says Europe's regulatory system – not US farm products – is the problem.

"There is clearly something wrong when the EU takes up to three years to approve products, which the US, Canada and Japan have approved in eight to 12 months," says Peter Scher, special trade ambassador for agriculture.

The tensions are a striking example of what seems set to become a growing problem, as the forces of global competition increasingly run up against local values, political systems and popular beliefs.

Dealing with such conflicts poses a stiff challenge for the World Trade Organisation, global trade's policeman. Although the WTO has special procedures for settling food safety disputes, US-EU wrangling has so far shown up their limitations as much as their strengths.

The sources of friction show little sign of abating. On the one side, the most potent problem comes from advances in food technology, which have led to rapid increases in US production of genetically modified crops. At the same time, the growing influence of farm state representatives in Congress has intensified US pressure on other countries to open their markets.

On the other, the "mad cow" crisis and other food scares in Europe have made consumers and politicians ultra cautious about food safety. Feelings run highest in Germany, Austria and the Nordic countries, where there has long been mistrust of products that are not naturally produced.

In an effort to calm public opinion, the European Commission has responded with measures that have further infuriated the US. One was a proposal to ban imports of beef derivatives, widely used in cosmetics and pharmaceuticals, which threatened to halt transatlantic trade in these products.

Critics claim the proposal, which now seems set to be shelved, was a gross overreaction, mainly designed to fend off a threat by the European parliament to sack commissioners for mishandling the "mad cow" affair.

Washington says such episodes typify the shortcomings of European regulation. It accuses the EU of undermining public confidence by allowing politics, rather than rational principles, to rule food safety decisions.

The US argues that the EU system needs to be more transparent, institutionally independent and to base its decisions on "sound science". It claims that US regulators' long-established reputation for embodying these qualities explains the widespread acceptance of novel foods there.

Many in Brussels concede that US criticisms of its cumbersome regulations are valid. Turf battles in the European Commission have kept responsibility for food safety divided between five directorates, each with its own rules. "The system is absurd and incoherent," says a senior EU agriculture official.

New products have to be approved by 15 governments, which regularly delay decisions for fear of unpopularity at home. Even when they reach an agreement, it can be hard to put into effect. Austria, for instance, has banned genetically modified maize, even though the EU Council of Ministers approved it.

The US believes it has now put Brussels on the spot by successfully challenging in the WTO the EU's 10-year-old ban on hormone-treated beef. The WTO's disputes panels ruled against the ban last year, because it had not been preceded by a proper scientific risk assessment.

The case was the first big test of the WTO's new food safety rules – called SPS, or sanitary and phyto-sanitary, rules. These are designed to reduce conflicts over the issue. They require safety regulations that exceed internationally agreed standards to be justified by scientific evidence.

But although the WTO hormones ruling is widely seen as a landmark, it raises as many questions as answers. Brussels and Washington, which both claim it vindicates their arguments, disagree over whether it requires the beef ban to be lifted immediately. The decision is likely to go to a WTO-appointed arbitrator.

Some observers believe attitudes may prove impossible to reconcile

Furthermore, neither the ruling nor the SPS rules say how scientific risk assessments should be conducted, their findings interpreted or – most crucially – how much risk is sufficient to justify trade restrictions. The uncertainties are all the greater because, as Europe's "mad cow" scare has shown, scientific opinion is often not clear cut and is notoriously subject to change.

Parts of the SPS rules – agreed at US insistence in the Uruguay round of world trade talks – are also ambiguous. According to Professor John Jackson of Georgetown University, a leading authority on world trade law, that is because the US wanted them that way.

Although the Clinton administration aimed to stop countries using their food safety rules to keep block farm trade, it was equally determined to assert its right to bar imports that did not meet its own environmental standards. Trying to have it both ways helped produce muddled international law.

These inconsistencies and legal holes raise doubts about how far US faith in "sound science" as the international benchmark for food safety regulation is realistic – or politically feasible.

Some world trade experts, such as Professor Stefan Tangermann of Göttingen University in Germany, believe that, to make the WTO rules work, it will be necessary for the disputes panels to define their application much more precisely. That could lead them, ultimately, to specify how scientific evidence should be interpreted and set the minimum risk levels required to justify import curbs.

Such moves could be politically explosive. Anger at the hormones ruling has already led Franz Fischler, Europe's farm commissioner, to condemn the WTO disputes system as undemocratic. In the US, any suggestion that the WTO was binding the hands of independent federal regulators would provoke an outcry in Congress.

Such sensitivities over national sovereignty are likely to encourage WTO adjudicators to proceed cautiously. As a consequence, near-term hopes of narrowing US and EU differences over food safety may depend on preventing conflicts, as much as on defusing them.

One possible peace formula would be for the EU to admit controversial food imports, provided they were clearly labelled. The US is prepared in principle to accept such an arrangement. But Brussels' efforts to devise a workable policy have so far been dogged by disagreement.

The idea is hamstrung by wide philosophical differences in the Commission and the Council of Ministers, where some governments are under strong domestic pressure to reject it entirely. There is no consensus even on exactly which food products a labelling policy should cover, nor on where do you draw the line between modified and "natural" food.

The prospect of prolonged stalemate has focused attention on an alternative solution, under which the US and EU would agree to treat each others' regulatory systems as equivalent. They recently reached a framework agreement, covering veterinary procedures, and the EU Commission has proposed that further mutual recognition arrangements be included in its proposed agreement with Washington to create a "transatlantic marketplace". Such arrangements might reduce US-EU mistrust by encouraging more regular dialogue between their food scientists. However they would probably take time to produce real results: the veterinary accord, for instance, involves little more than a commitment to hold further talks.

There is also a risk that efforts to narrow regulatory differences could end up breeding more discord. Such disagreements led the EU last year to ban chicken imports from the US, because Brussels was not satisfied by American hygiene standards.

Some observers believe attitudes to food safety on either side of the Atlantic diverge so widely that they may prove impossible to reconcile. If so, more trade disputes over food appear inevitable.

Others say US criticisms of European practices are based on unwarranted complacency. The US has recently suffered a series of food contamination incidents of its own, which have prompted it to tighten food import laws and strengthen its inspection systems.

"Imagine what would happen if the US was hit by a food scare on the scale of 'mad cow' disease," says a European diplomat. "I'll bet Washington would put up trade barriers overnight – and that would be the end of all its preaching about the wonders of 'sound science'." And the beginning of even bigger arguments over food safety and trade.

OBSERVER

Storm clouds over Moscow

No-one loves weather forecasters when they get things right, and everyone hates them when they make mistakes. That's certainly the case in Russia this week after meteorologists failed to predict enormous snowfalls that have turned Moscow into an ice rink.

It isn't just airport closures that are raising the temperatures of the country's leaders. President Boris Yeltsin must have thought that the beginning of spring would be a good time to change his government: instead, the terrible weather is making people feel ever more fed up with the shambles in the Kremlin.

Yuri Luzhkov, Moscow's bulldog of a mayor, was the first to bite the forecasters' ankles, even accusing them of "deceptions" and "disinformation", which seems a bit harsh.

He threatened to cancel the city's contract with the national weather centre, though his alternative was to use the military and airport weatherpeople – who get their information from the national service. He's now threatening to set up his own forecasting service in Moscow, which will no doubt provide better weather.

This isn't the Moscow mayor's first try at tampering with the elements: last autumn he seeded clouds outside the capital to divert the bad weather from the city's 850th anniversary celebrations, but it rained on his parade anyway.

Even the ambitious Luzhkov, who is puffing himself up for a bid for the presidency in 2000, should think twice about declaring war on winter. As Russians are fond of remarking, General January and General February have been invincible military commanders throughout their history.

Reverse gear

When General Motors shifted international operations to Zurich from Detroit in 1992, the world's biggest company waffled on about going global from a base between US and Asian time zones.

Now GM is shipping its 30 top Zurich-based people, led by international boss Lou Hughes, back to Motown. It says globalisation has been such a success that it can be handled from home base.

Those who question Detroit's virtue as a global centre should recall that, in 1992, Hughes wanted to stay in Europe, where he was running GM's German subsidiary Adam Opel. Six years and considerable internal friction later, his Zurich powerbase is being cut down to size. That's globalisation.

Stubbed out

Israeli taxpayers are fuming: they've discovered that they've been shelling out $3,200 a month to finance prime minister Benjamin Netanyahu's penchant for puffing Cuban cigars. State funds have been spent to keep a rolling supply of stogies in the PM's office while the government has been slashing welfare spending.

Netanyahu's aides – some of whom have been seen lighting up with their boss – say the smokes were a legitimate entertainment expense for distinguished guests. But to snuff out the commotion, they have agreed to divert the money to "other types" of refreshment, so far unspecified but presumably smokeless. Observer awaits an invitation.

Bulgar faction

Todor Zhivkov, who ran Bulgaria for three-and-a-half decades under communism, turns 87 in September. But far from fading quietly away, he is planning a political comeback at next month's congress of the opposition Socialist – ex-communist – party.

After the demise of communism, Zhivkov was found guilty of misappropriating state funds. Because of his age, he was allowed to serve his sentence at his grand-daughter Evgenia's villa in Sofia's plush Boyana suburb.

Zhivkov has lately been issuing political statements, is lobbying to become a congress delegate and has even made a few public appearances: Sofia socialites were surprised to see him at a fashion show staged by Evgenia, one of Bulgaria's up-and-coming designers.

The Socialists have been in disarray since losing a general election last April to the centre-right United Democratic Forces, and Georgi Parvanov, the soft-spoken historian who took over as Socialist leader 15 months ago, will have his back to the wall at the congress.

Zhivkov is not in the running to take over, say local analysts, but he just may be tempted to persuade some of his contemporaries to break away: look out for a new "oldies" splinter group.

Old warriors

On Monday night, hard on the heels of a German television programme about Wehrmacht veterans, two other old boys shared jokes and refought old battles from their armchairs. Former chancellor Helmut Schmidt and his successor Helmut Kohl chatted about the burden of power, the loneliness of office, the qualities of political leadership, and other such high-level matters.

The exchanges were fairly amicable, even if Schmidt – puffing on his umpteenth cigarette – did suggest that the time anyone could serve as German chancellor should be limited: his own eight years in the hot-seat had been too long.

Kohl, 15 years in post and running again in September's elections, chose to disagree with "my colleague Schmidt". But if social democrat Gerhard Schröder wins the battle, Monday's show proves that Kohl measures up as an elder statesman.

The Financial Times

100 years ago

Deep Level Prospects

Some reports in the Johannesburg papers afford further facilities for taking the measure of the deep level mines. There are many imposing figures, which induce those writers whose mission it is to serve the interests of the promoting houses to cry "Prodigious!" and to descant on the proved success of deep level mining in the abstract, and on the character of certain properties in particular as "ventures of magnificent payability." But the investor does not want to be dazzled with assurances of abstract magnificence, but desires to know what return he is likely to get for his money if he buy deep level shares.

50 years ago

Oil Search in Canada

Montreal, April 14. The recent strength of Calgary and Edmonton Corporation on the Montreal Stock Exchange is part of a group movement of Western Canadian oil companies under the leadership of Home Oil Company. This is a natural outcome of the interest evoked by continuing discoveries in the neighbourhood of Leduc and the hopeful exploration of other Western areas.

FINANCIAL TIMES
WEDNESDAY APRIL 15 1998

THE LEX COLUMN

Two cheers for Thomson

Third time lucky for attempts to privatise Thomson-CSF, the state-controlled defence electronics group? Not really. Giving Alcatel Alsthom, Dassault and Aerospatiale stakes in Thomson in return for their defence electronics and space assets is an important step towards rationalising the French defence industry.

However, it is still an unsatisfactory fudge. Sure, the state's 58 per cent stake has been diluted to below majority level; but at 47 per cent it remains an intimidating presence.

In immediate terms, cost-cutting measures that worsen French unemployment numbers could be postponed. This would clearly be to the detriment of shareholders in Alcatel, now a 16 per cent shareholder, or Dassault, which has 6 per cent. Perhaps more worrying is the prospect that the government could also restrict a now beefier Thomson from entering a broader European alliance with the likes of General Electric Company, British Aerospace and Daimler-Benz Aerospace.

For such privately-owned foreign groups to pool their assets into the Thomson pot will be hard in these circumstances. The most logical deal – in terms of creating a group able to compete with the big US defence electronics groups – remains a merger of Thomson and GEC-Marconi. But GEC has other options. A merger with Northrop Grumman is a possibility. So if Thomson is to benefit fully from European defence restructuring, this partial privatisation should be completed with haste.

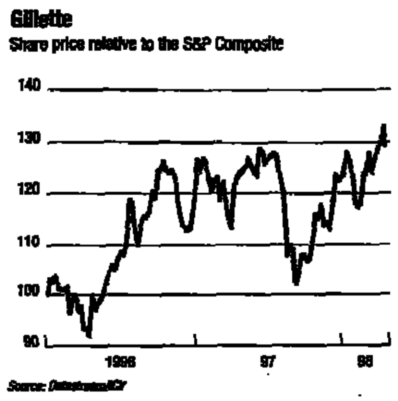
European banks

Will the renewed frenzy of US bank merger activity spill over into Europe? Arguably it ought not to make much difference. The import of these deals is overwhelmingly domestic, and even Citigroup will take time to make its presence felt globally.

Anyway, Europe is already in the throes of banking consolidation. The pace may not be the same – obstacles such as different currencies, cultures and technology ensure that it is slower – but the issues are.

Where the US example may make a difference, though, is in encouraging Europe's bankers to think the unthinkable. Citigroup, after all, is a flagrant violation of the regulatory status quo. But it is not alone.

Gillette
Share price relative to the S&P Composite



Source: Datastream/ICV

The Royal Bank of Canada/Bank of Montreal deal also assumes regulators will accommodate the deal-makers, while Australians are wondering whether their new legislation – which still prohibits a merger among the big four banks – is not already outdated. In this environment, is a Barclays/NatWest or a Deutsche/Commerzbank really so outlandish?

The regulatory environment is likely to become more accommodating, and a single currency will add further encouragement. But the critical catalyst will be visionary leaders. Without action from them soon, bank share prices in countries like Italy, Spain and France – many up by over 50 per cent this year already – look vulnerable.

Gillette

With flexible microfins, a single-point docking system and a name like Mach3, it sounds like a rocket.

In fact, it is merely Gillette's new razor. But investors should make no mistake: this is a big deal for the consumer products group.

The Mach3 is Gillette's bid to extend its dominance over the world's stubble. With 71 per cent of the $3.3bn North Atlantic (Europe and North America) razor and blade market, there might seem little cause for alarm. But that share has stagnated in recent years and even slipped in the US during 1997. Gillette's last big innovation, the Sensor, is eight years old and main rival Schick has just launched its own new razor.

This launch will also show if Gillette can continue to push up prices in return for technical improvements. The group has a successful record in getting consumers to trade up, which helps explain the 40 per cent operating margin in its shaving division.

And given its 35 patents and $750m of development costs, the Mach3 really ought to offer a smoother shave. But its 35 per cent price premium to SensorExcel – an astonishing $1.60 per blade – could prove a tough sell.

The stock market does not seem to think so. Gillette's shares are up a quarter this year and now trade on a pretty smooth 42 times forecast earnings. That looks high enough for now.

SmithKline Beecham

SmithKline Beecham's presentation on its teeming array of drug prospects reads a bit like a dry run for a defence document. After two failed attempts at a merger, SmithKline remains in play. Glaxo Wellcome is doubtless still interested and might pounce if the share price weakened. Alternatively, any further chinks in chief executive Jan Leschley's armour might be used by frustrated shareholders to urge a humble return to the negotiating table. So SmithKline needs to keep justifying its high price earnings ratio – 40 times last year's figure – and the presentation does a reasonable job on that count. Notably it serves as a reminder of the group's healthy drugs pipeline, including the blockbuster potential of Avandia, the diabetes treatment.

But then Smithkline needs to deliver its target of two new drugs and one new vaccine each year to sustain the 15 per cent annual earnings growth expected of it. And the flip side of its contention that it has gone from famine to feast on drug leads is that it needs additional funding to exploit them all. Such funding in the hope of drug launches six years' down the line would, of course, spell short-term earnings dilution. A merger that would pool both the scientific advances and the research and development costs must still look more appetising to shareholders – as would even a modest takeover premium if SmithKline's pipeline narrowed.

Private sector should pay for poor lending says Rubin

Treasury secretary calls for strengthening of monetary systems

By Robert Chote in Washington

Measures to ensure that the private sector bears the consequences of poor lending should be a significant element in strengthening the international monetary system after Asia's financial crisis, Robert Rubin, the US Treasury secretary, said yesterday.

Speaking on the eve of a finance ministers' meeting in Washington of the Group of Seven main industrial nations, Mr Rubin argued that political obstacles to a formal international bankruptcy regime were probably insurmountable. But there were ways to ensure that the private sector "fully bears the consequences of its decisions in the context of restoring financial stability".

"The promotion of new, more flexible forms of debt agreements and indentures would provide a framework for direct negotiations between creditors and investors," he said.

The idea of placing special clauses in bond contracts was backed by the Group of Ten industrial countries – the G7 members plus Belgium, Sweden, the Netherlands and Switzerland – after the Mexican financial crisis. But the G10 has so far been unwilling to lead by example, because members do not wish to admit the possibility of default.

Mr Rubin also tried to renew momentum for another of the G10's post-Mexico proposals, arguing that the International Monetary Fund should be prepared to lend to countries which are behind on their payments to some private creditors. This would amount to the IMF giving moral authority to temporary debt standstills.

He said the architecture of the international financial system needed "to adapt substantially for the very different circumstances that have developed over the past decade". One priority was to increase the transparency of national economic policies, so that financial markets could perform their disciplining function more effectively.

Mr Rubin said the IMF's data standards should cover forward transactions in foreign exchange reserves, foreign currency liabilities of commercial banks and indicators of the health of the financial sector.

More qualitative information was needed, for example on banking supervision, bankruptcy procedures and perhaps judicial systems, credit cultures and skills in the banking sector. There should also be more publication of IMF documents, analyses and letters of intent.

Mr Rubin argued the IMF should not be responsible for providing formal warnings of looming crises. But it and other international institutions should publicise their concerns about gaps in information disclosure, perhaps making loans conditional on countries' willingness to improve their transparency.

A more complete range of global standards was required to promote strong national financial systems.

Mr Rubin defended the international community's right to exert pressure on Japan to increase domestic demand on the grounds that the US faced similar pressure to reduce its budget deficit in the 1980s.

G7 may argue for stronger yen, Page 4
Aid minister, Page 10
Editorial Comment, Page 13

Food crisis negotiations between North and South Korea collapse

By James Harding in Shanghai

The first direct talks between North and South Korea in four years broke down yesterday, each side blaming the other for the inflexibility and political wrangling that scuppered negotiations between the old enemies.

The talks, which ran for four days in Beijing, were held after North Korea's Communist government asked the South to discuss a request for chemical fertiliser to improve agricultural output and overcome North Korea's food shortages.

Negotiators on both sides traded recriminations after the failure of the talks. South Korea had linked the possibility of aid to the troubled North with a show of "reciprocity" from Pyongyang, the Communist government, on a number of sensitive issues, in particular the reunification of families separated since the 1950-53 Korean War.

Seoul's representative indicated that as no concession was forthcoming from the North on the issue of reuniting families, South Korea would not answer the request for fertiliser, in spite of growing fears that North Korea is on the brink of famine.

Last week MSF, the French humanitarian aid group, reported that cases of starvation had become common in North Korea, where food sent by the international aid community has failed to reach millions of hungry people.

Jon Kum-chol, North Korea's chief negotiator, said yesterday: "Because the South attached political conditions to an economic and humanitarian issue, talks did not succeed ... This issue will not be solved if the South Korean government chooses to politicise it."

The head of the South Korean delegation said there would be no offer of fertiliser until Pyongyang showed "goodwill". At a separate press conference, he said: "North Korea said the family issue is a political issue, while the fertiliser was a humanitarian issue. But we believe the reunion of families is a humanitarian issue of the first order."

He added: "Without any sign of goodwill and sincerity from the North Korean side, we cannot provide unilateral aid because the South Korean public will not support unilateral concessions."

South Korea's negotiating team will stay in Beijing for two days, in case contacts can be resumed. Three years of flooding and the strains on the economy of one of the most stubbornly dogmatic dictatorships in the world have resulted in a deepening food crisis in North Korea.

On Monday, China announced that it would send 100,000 tonnes of grain and 20,000 tonnes of fertiliser to North Korea, its neighbour and historic ally.

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Clare Short, the UK's chief international development minister, is at the joint meeting of the World Bank and the International Monetary Fund in Washington. She says the link between the two must change. Page 10

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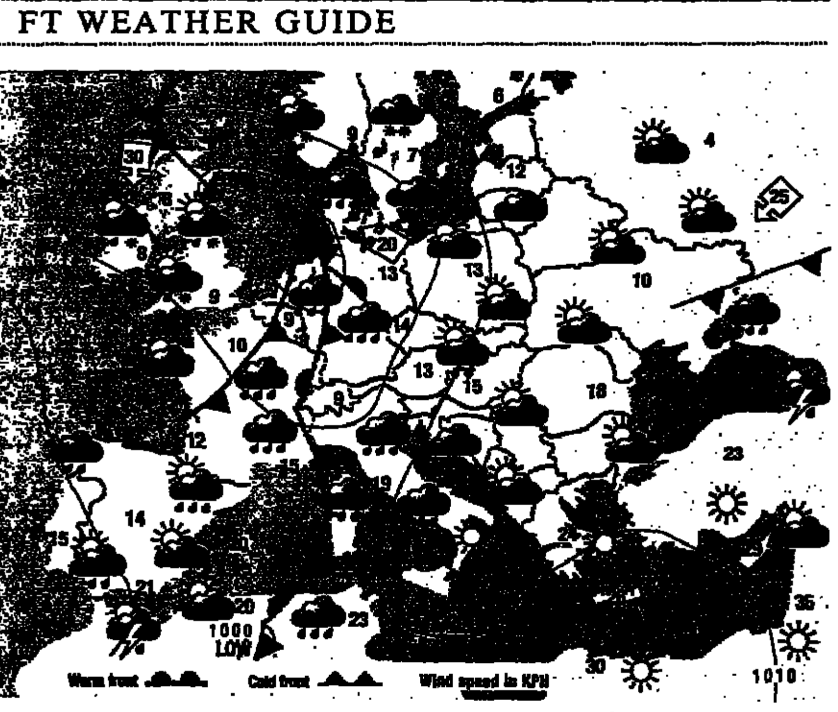
FT WEATHER GUIDE

Europe today

A frontal system stretching between North Africa and Denmark will bring unsettled weather to much of western Europe, with heavy rain on the French Riviera and in northern Italy. The Low countries and the western half of Germany will be wet, with fresh snow over the Alps. Southern Scandinavia will have rain with wet snow in central areas, but the north will be bright with sunny spells and a few wintry showers. The Iberian peninsula will have sunshine and showers. Eastern Europe will be dry, and the eastern Mediterranean will have sunshine.

Five-day forecast

Low pressure will move in from the Bay of Biscay tomorrow and sweep east towards northern Italy on Friday. This will bring more rain to central and western Europe, and a strong Mistral will blow down the Rhone valley towards the Gulf of Genoa on Friday and Saturday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	33
Accra	Cloudy	34
Algiers	Fair	22
Amsterdam	Rain	7
Athens	Sun	22
Atlanta	Cloudy	25
B. Aires	Cloudy	22
B.ham	Shower	7
Bangkok	Fair	37
Barcelona	Shower	22
Beijing	Sun	23
Belfast	Hail	8
Belgrade	Fair	18
Berlin	Shower	13
Bermuda	Shower	23
Bogota	Thunder	19
Bombay	Sun	33
Brussels	Shower	9
Budapest	Fair	16
C.hagen	Shower	7
Cairo	Sun	38
Caracas	Fair	31
Cardiff	Shower	8
Casablanca	Shower	19
Chicago	Shower	14
Cologne	Rain	11
Dakar	Fair	25
Dallas	Sunny	28
Delhi	Sun	32
Dubai	Sun	32
Dublin	Shower	8
Dubrovnik	Fair	17
Edinburgh	Hail	8
Faro	Fair	19
Frankfurt	Rain	10
Geneva	Rain	9
Gibraltar	Shower	21
Glasgow	Shower	8
Hamburg	Hail	12
Helsinki	Cloudy	5
Hong Kong	Shower	25
Honolulu	Fair	28
Istanbul	Sun	18
Jakarta	Cloudy	32
Jersey	Shower	8
Johannesburg	Fair	19
Karachi	Sun	35
Kuwait	Sun	39
L. Angeles	Sunny	16
Las Palmas	Shower	23
Lima	Fair	28
Lisbon	Shower	16
London	Shower	9
Lux.bourg	Rain	8
Lyon	Rain	12
Madeira	Fair	19
Madrid	Shower	14
Majorca	Cloudy	20
Malta	Sun	22
Manchester	Sleet	6
Manila	Fair	34
Melbourne	Cloudy	19
Mexico City	Sun	28
Miami	Fair	29
Milan	Rain	13
Montreal	Fair	13
Moscow	Cloudy	4
Munich	Shower	13
Nairobi	Fair	27
Naples	Sun	20
Nassau	Fair	28
New York	Cloudy	18
Nice	Rain	15
Nicosia	Fair	28
Oslo	Rain	8
Paris	Rain	10
Perth	Shower	24
Prague	Shower	13
Rangoon	Fair	38
Reykjavik	Shower	7
Rio	Fair	30
Rome	Shower	19
S. Frsco	Fair	14
Seoul	Fair	20
Singapore	Thunder	32
Stockholm	Shower	7
Strasbourg	Rain	11
Sydney	Fair	21
Tangier	Fair	20
Tel Aviv	Fair	33
Tokyo	Fair	24
Toronto	Fair	15
Vancouver	Fair	15
Venice	Rain	13
Vienna	Fair	13
Warsaw	Fair	19
Washington	Fair	25
Wellington	Fair	17
Winnipeg	Sunny	8
Zurich	Shower	11

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Losses mount at Skoda Plzen
Skoda Plzen, the biggest Czech engineering group, stunned the market this month by reporting a preliminary 1997 consolidated net loss of Kc1.78bn ($53m) – the third consecutive year of heavy losses. Analysts want the group to slim down and focus on its profitable lines such as trolley buses. But Lubomir Soudek, the fiercely independent chairman, seems to have taken upon himself the task of running a hospital for the country's ailing engineering companies. Page 18

Black takes on new challenge

When Conrad Black, the newspaper proprietor (left), consolidated control last year over Southam, the largest newspaper group in his native Canada, a shudder went through newsrooms from Halifax to Vancouver. But since taking a 59 per cent share in Southam, Mr Black has hired reporters and editors, built new printing facilities and improved both quality and returns at the group. Now he plans to open a national title, based in Toronto. Recent history is not very encouraging. USA Today, the US broadsheet that pioneered full-colour reproduction in 1982, lost more than US$1bn over a decade before turning a profit. Page 17

South Africa profits from Asian crisis
South Africa is one of the few emerging markets that appears to have benefited from the Asian financial crisis. The turmoil enhanced its qualities as a haven, and the decline in the value of Asian markets has increased South Africa's weighting in the emerging market indices. The sophisticated level of corporate governance compared with other emerging markets has also helped. Page 34

Indian wheat harvest set to fall
India's wheat production is set to fall this year as a result of bad weather and a reduction in land under the crop. The government is to import 1.5m tonnes of wheat from Australia. Page 24

GHB launches two-part offering
General Hellenic Bank, a medium-sized Greek bank, launched the first of a two-part share offering that will see the Greek army pension fund, its majority owner, sell nearly half its stake. Page 22

Commodities stabilising, IMF says
Commodity prices show signs of stabilising after sharp declines linked to the Asian financial crisis, the International Monetary Fund says. Since mid-1997, prices of primary commodities have fallen more than 10 per cent. Page 24

French bond exchange finds favour
The French treasury's offer to exchange Ecu17bn ($18.5bn) of illiquid Ecu-denominated bonds for new euro-fungible benchmarks is set to be the most successful of its kind, according to bankers. Page 22

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MARKET STATISTICS

FALLS IN FIRST QUARTER EARNINGS AT KODAK AND JOHNSON & JOHNSON UNDERLINE WORRIES ABOUT FUTURE PROFITS

Fears as strong dollar hits exports

By Richard Tomkins in New York

The strong dollar took its toll on first quarter earnings at Eastman Kodak and Johnson & Johnson yesterday, underlining investor concerns about the continuing effect of the currency's strength on profits of some of the biggest US companies.

Kodak, the photograhic products group, said that compared with a year ago, first quarter earnings per share of 69 cents were 15 cents, or 18 per cent, lower than they would have been without the dollar's rise.

Johnson & Johnson, the consumer and health care products company, said the strengthening dollar had left group revenues 4.4 per cent lower than they would otherwise have been. The negative impact on international revenues was 9 per cent.

Both companies generate roughly half their sales from outside the US, and have been suffering worsening effects from the dollar's continued rise.

This time last year they reported that shifting exchange rates had wiped 3 per cent off revenue growth.

The strong dollar is likely to emerge as a recurring theme over the next few weeks as US companies report their first quarter results, particularly among big companies with heavy international exposure such as Coca-Cola and Gillette.

The currency's strength sent worries through Wall Street last fall as the stock market started to focus on the impact it would have on big companies' earnings.

More recently, however, blue chip stock prices have bounced back because investors believe that international demand for the companies' products will hold up and that the dollar's peak cannot be far off.

Coca-Cola gave confidence a boost at the end of last month when it said the volume of its soft drinks sold in the first quarter – as distinct from revenues, yet to be announced – rose by an underlying 9-10 per cent.

Kodak, which has been suffering from intense competition with Fuji of Japan, warned in January that first quarter earnings per share would be hit by the dollar's rise, and the figure reported was in line with analysts's expectations.

Revenues tumbled 7 per cent to $2.9bn. Underlying net profits, excluding a charge in the prior year, fell from $272m to $225m – the latest in a series of declines. But in early trading, the share price jumped $3⅜ to $70⅛, a rise of more than 5 per cent, on hopes that the worst was over. George Fisher, chairman and chief executive, said the company's recovery plan was on target.

Competition and the strong dollar made it difficult to achieve top-line growth, he added, but cost-cutting would continue.

Johnson & Johnson said revenues rose 1 per cent to $5.8bn. Net profits rose 11 per cent to $1bn, in line with forecasts.

Ralph Larsen, chairman and chief executive, said the group's pharmaceutical business was particularly strong.

World stocks, Page 34
Currencies, Page 23

France completes sell-off of CIC bank

By Andrew Jack in Paris

The French government yesterday announced the sale of a majority stake in CIC, the country's fifth largest banking network, to Crédit Mutuel, a mutual, in a deal worth at least FFr13.4bn ($2.2bn).

The controversial decision brings to an end the painful privatisation of CIC, originally put on sale in December 1995 in a process aborted by the then centre-right government in late 1996.

It also represents a second significant French banking operation in which an essentially domestic non-quoted group will acquire a commercial bank, following Banque Populaire's friendly takeover of Natexis last month.

Dominique Strauss-Kahn, economics, finance and industry minister, said that Crédit Mutuel's offer was in line with the two rival bids of ABN Amro of the Netherlands and Société Générale of France. On other criteria, it was "either the same or considerably better than the others".

The deal was welcomed by CIC's unions, which had supported the Crédit Mutuel bid, and by Philippe Pontet, CIC's chairman. However, one French banker warned yesterday that the country's commercial banks would consider launching an offensive against Crédit Mutuel in response to the operation. "At a time when mega-mergers are taking place in the US, the government is putting a lot of trust in the mutual system which is being abandoned everywhere else around the world," he said.

The French Banking Association has already lodged a complaint with the European competition authorities in Brussels over Crédit Mutuel's exclusive right to offer the Livret Bleu, a government-backed tax-free savings scheme.

Mr Strauss-Kahn indicated yesterday that the funds raised by the Livret Bleu would in future be co-ordinated by the state-controlled Caisse de Dépôt et Consignations.

Under the terms of the deal, Crédit Mutuel will pay FFr13.4bn for a 67 per cent stake in CIC. It will recapitalise the bank by up to FFr4bn in the next few years, including a FFr2.6bn issue of preference shares later this year. It plans to reduce its stake in the medium term to 51%, with the rest of CIC quoted on the Paris stock exchange.

Gillette rolls out Mach3 fighter for shaving wars

'Major blitz' launch of three-bladed razor planned to maintain market domination

By John Willman in New York

The Cold War may be over but the Wet War continues.

Gillette yesterday unveiled a new razor with a campaign designed to emphasise its determination to maintain domination of the global wet shave market.

The Mach3 razor, says the company, is the stealth bomber of the shaving world, breaking the performance barrier to provide an optimum combination of shaving closeness, comfort and safety.

The parallel with military hardware was well to the fore in yesterday's presentation to the world's media at the Hudson Theatre in New York.

Indeed, its launch to consumers will be a "major blitz", according to John Darman, vice-president of male shaving at the company. Gillette will launch Mach3 to US consumers in August. Western Europe will follow in the autumn, with the roll out in the top 100 markets to be completed by the end of next year.

"Aerodynamics and shaving are two technologies that have impacted the lives of men for nearly half a century," the video presentation intoned. "Now they come together for the first time."

The company is as old as manned flight and, like aircraft, its product changed little in the early decades of the century. But over the past 25 years it has adopted the mission statement: "There is a better way to shave and we will find it." This has meant innovations every nine years or so which have allowed Gillette to win 70 per cent of sales in North America and western Europe.

In 1989 it launched the Sensor range, with a revolutionary two blades to give not just one but two cuts at those facial hairs. The Mach3 adds a third blade to the armoury, together with 35 new features the company believes competitors will struggle to emulate.

These include a diamond-like carbon coating for the blades that means they are thinner than ever before, soft flexible microfins that stretch the skin taught and a lubricating strip that moisturises the skin and changes colour when blades need replacing.

Bob King, head of Gillette's North Atlantic division: "The Mach3 breaks shaving performance barriers." AP

The company will have invested more than $1 billion on the new product by the time the launch is over.

The price of a Mach3 and two cartridges will be between $6.50 and $7.00 – 35 per cent more than the top of the Sensor range. To sell this to the consumer the company plans a set of ear-splitting advertisements which show a square-jawed fighter pilot breaking through the sound barrier three times, before enjoying the mother of all shaves.

"Flying at Mach 1 breaks the sound barrier," said Bob King, head of Gillette's North Atlantic division. "The Mach3 breaks shaving performance barriers - it is a quantum leap in shaving technology and performance."

Lex, Page 14
Going for the market, Page 17

Mitsubishi Chemical takes control of joint ventures

By Paul Abrahams in Tokyo

Mitsubishi Chemical, Japan's biggest chemical company, yesterday took full control of its three joint ventures with Hoechst of Germany producing polyester film.

The deal should make the Japanese group the world's second largest manufacturer of the product after Du Pont of the US.

The two companies would not give details of the value of the deal or of recent earnings from the joint ventures, formed in 1991. However, Hoechst said the businesses, known as Diafoil, would generate sales of DM1.2bn ($650m) this year.

Mitsubishi Chemical said US and Japanese operations were profitable but a German unit, based near Wiesbaden, was barely breaking even because of regional overcapacity. The two companies invested $300m to increase capacity by about 80,000 tonnes a year to 170,000 tonnes.

The disposal by Hoechst marks another step in the efforts of Jürgen Dormann, the group's chief executive, to transform the chemicals conglomerate into a life-science company concentrating on pharmaceutical and agrochemical products.

The rationale for Mitsubishi Chemical was to build up commanding positions in its fields of expertise, said Koichi Ishihara, chemicals analyst at UBS in Tokyo. Du Pont, Toray of Japan and Mitsubishi Chemical would now control 60 per cent of the polyester film market, he said. Du Pont recently acquired the polyester operations of Imperial Chemical Industries of the UK.

Mitsubishi Chemical's shares closed up 1.3 per cent, or Y3, at Y239, even though the announcement was made after trading. In the past two years, Mitsubishi Chemical's shares have underperformed the Nikkei 225 benchmark index by about 45 per cent.

Polyester prices in Japan and the US were holding up well and providing good margins, said Mr Ishihara.

Mitsubishi Chemical will take control of operations in Japan, Indonesia, Wiesbaden and Greer, South Carolina, employing 2,000 people.

Anglogold appoints S African mining union chief to board

By Victor Mallet in Johannesburg

Anglogold, the world's biggest gold mining company being formed out of Anglo American's gold interests, announced yesterday that it had chosen the president of South Africa's National Union of Mineworkers as one of its independent directors.

Bobby Godsell, Anglogold chief executive, acknowledged that the choice of James Motlatsi as one of the company's six independent directors was both unusual and risky.

He said South African mine owners and the NUM had co-operated successfully since 1990, adding that they could work together to transform the industry's racial structure, improve skills and change "the autocratic and hierarchical management style that has characterised the mining industry in times past".

Mr Motlatsi's appointment is likely to please South Africa's ruling African National Congress party, which has a formal alliance with the trade union movement, but it may be resented by radical union members.

Anglogold also strengthened its "black empowerment" credentials by appointing Donald Ncube, a leading black businessman who established the Real Africa group, to the board.

The other four independent directors are Colin Brayshaw of accountants Deloitte and Touche (South Africa); Russell Edey, deputy chairman of N.M. Rothschild & Sons' corporate finance company; Frank Arisman, the New York-based commodities and foreign exchange expert; and Victor Fung, the Hong Kong businessman.

Anglogold has sought to woo institutional investors by emphasising that it will operate independently of Anglo American, the parent company that will hold just over half the shares. Of the 14 directors announced yesterday, five are Anglo nominees and three are Anglogold executives. A further three independents may be announced in future.

FINANCE STRONG ECONOMY AND BUOYANT FEE INCOME LIFT REGIONAL INSTITUTIONS

US banks rise strongly in first quarter

By John Authers in New York

Several US regional banks released strong results for the first quarter yesterday, as they continued to benefit from the strong economy, and buoyant fee income.

First Union, the acquisitive bank based in Charlotte, North Carolina, announced an increase of 20 per cent in operating profits to $606m compared to the first quarter of 1997. This was before after-tax charges of $19m connected to its purchase of the Wheat First Butcher Singer brokerage.

The bank continued to increase its income from non-interest sources such as fund management and capital markets, with an increase of 39 per cent to $1.1bn. Net interest income fell as net loans fell from $101bn in the equivalent quarter of 1997 to $96bn.

First Union also confirmed it had clearance from the Federal Reserve to complete its $17.1bn acquisition of CoreStates Financial, the largest bank in Philadelphia, announced last November.

The bank refused to comment on speculation that it may soon make another large acquisition, possibly in New England.

However, Edward Crutchfield, chief executive, said the bank would "continue to evaluate acquisition opportunities against our rigorous standards" as the industry moves along "a continuum of consolidation." He added: "Size, scale and scope are critical factors in meeting the expectations of customers for seamless services across a broad array of products."

Norwest, the Minnesota-based regional bank, announced net profits of $367.7m for the quarter, up 14.2 per cent last year. Both its banking and mortgage divisions fared strongly, with mortgage earnings increasing by 53.5 per cent year on year.

However, its Norwest Financial consumer lending division was hurt by rising credit losses in Puerto Rico, caused by bankruptcies. As a result, the bank warned Norwest Financial's profit for this year would be 10 per cent lower than the $243m earned last year.

State Street, the Boston-based bank which specialises in asset management and securities processing, raised net income by 22 per cent to $106m from $86m, mostly from growing fee revenues from servicing mutual funds and pension funds.

Pittsburgh-based PNC Bank increased first quarter earnings only marginally, from $266m to $269m. Fee income increased while income from lending was almost static.

By mid-session, First Union had gained $1 at $60, while State Street was up $9/16 at $72¼. Norwest shed $⅝ at $42¼.

Norwest chief doubtful over banking mergers

By John Authers in New York

Richard Kovacevich seems to be one of the few bankers in the US who remains sceptical about the wave of banking mergers.

The chief executive of Minneapolis-based Norwest, the ninth largest US bank with $96bn in assets, he has led an aggressive attempt to introduce a sales culture at his bank. He no longer refers to branches but to "stores".

Attempts to boost sales through cross-selling different financial products, including both basic bank accounts and investment and insurance accounts, underlie several of the big bank mergers which have been announced recently, such as the huge combination of Citicorp with the Travelers Group.

But Mr Kovacevich seems dubious that they will work: "The most important thing to understand about cross-selling is that it's about execution and implementation. It's not about broad strategy. This is a tough thing to do, and it requires doing literally hundreds of things well and doing them consistently well for all your customers."

Norwest started implementing its own plan to improve cross-sales more than 10 years ago. This involved extensive changes to the training and incentive structures for staff.

It now sells four separate products to each customer on average, although the aim is to increase this to eight.

However, market research has revealed four products – current accounts, mortgages, brokerage and insurance – which work as "core" products from which other sales can be made. Products such as credit cards and home equity loans tend to be regarded by consumers as free-standing.

This logic led to an acquisitions campaign to build up its mortgage business, which is now the largest in the US with assets of $22.4bn. The average Norwest mortgage customer buys six products from the company, well above the average.

A former Citicorp executive, Mr Kovacevich points out the bank has had a range of products to sell for many years. "They are probably averaging two products for every customer, just like everyone else, and adding another hundred products to the mix they offer isn't going to make much difference."

Norwest is one of the largest regional banks, and has not been involved in a merger for some time. But Mr Kovacevich suggests that the greater scale makes it harder to deliver cross-selling across the organisation: "I would argue that the bigger you are the more difficult it is to cross-sell, because it has to be done everywhere across the company."

On to next generation: Bill Gates, Microsoft chairman Reuters

Microsoft sets June start date for Windows 98

By Louise Kehoe in San Francisco

Microsoft announced yesterday that Windows 98, the next generation of its personal computer operating system program, would make its official debut in June with a US price of $109.

The new software, which incorporates an internet web browser and a browser-like interface, is at the centre of debate over alleged anti-trust violations by Microsoft.

The US Justice Department has filed a suit against the company, charging that Windows 95 – the current version of the software, which also incorporates browser software – violates a prior anti-trust settlement.

There has been widespread speculation that Windows 98 would also fall foul of anti-trust regulators. With the Justice Department currently conducting a broad investigation of Microsoft's activities, industry executives have predicted that a second anti-trust case may be pending. This could force Microsoft to halt plans to introduce Windows 98.

Yesterday's statement by the company that it would launch the new software on June 25 was seen as an expression of confidence.

The software is currently in the final stages of testing by 100,000 users, including approximately 70,000 who paid about $30 to obtain a preview version. Some 95 per cent of consumers who are users of Windows 95 plan to upgrade to the new software, according to Microsoft.

Independent studies suggest nearly two-thirds of users will upgrade within six months of the product being introduced.

Windows 98 is also expected quickly to become the standard software for new PCs.

The new software will run applications faster and more easily than Windows 95, said Yusuf Mehdi, director of marketing. In addition, it will store data more efficiently.

Morgan cuts its Asian exposure

By William Lewis in New York

J.P. Morgan, the international bank, announced yesterday that it had managed to reduce its exposure to counterparties in emerging Asian economies by 25 per cent from $6.1bn at the end of 1997 to $4.6bn in the first quarter of 1998.

The move follows widespread concerns about the exposure of the US banks to the region. The announcement by Morgan came as it reported earnings for the first quarter of 1998 marginally above analysts' expectations. It achieved income for the first quarter of $366bn, or $1.80 "diluted" a share, up 35 per cent from the fourth quarter of 1997. Analysts polled by First Call had been forecasting diluted earnings per share of $1.78.

This excludes the effect of a restructuring charge related to a cost-cutting programme announced earlier this year.

Morgan said the charge of $129m after tax, or $0.65 per share, was expected to generate annual savings of approx $250m. Morgan laid off approximately 900 staff in the quarter.

Net income, including the charge, was $237m, or $1.15 a share. This compares with net income of $424m, or $2.04 per share, achieved in the first quarter of 1997. Revenues were up 9 per cent on a year ago at $1.997bn.

However, operating expenses, including the $129m post tax charge, were $1.632bn. Morgan said this included costs of $55m partly to prepare for 2000, and an increase of approximately $50m related to previous years' staff stock awards. Excluding the charge, expenses were up by 19 per cent on a year ago and 8 per cent from the fourth quarter 1997.

In mid-session trading on Wall Street, Morgan's possessive share price fell 50 cents to $147⅛.

Brazilian power groups to be auctioned today

By Jonathan Wheatley in São Paulo

The privatisation of Brazil's vast electricity industry progresses today with the sale of the distribution and transmission arms of Eletropaulo, Latin America's biggest electricity distributor.

Eletropaulo's distribution business has been spun off into two separate companies; Metropolitana, covering the city of São Paulo, and Bandeirantes, in the interior of the state.

Stakes – representing 79.9 per cent of voting shares and 29.8 per cent of total stock in each company – will be sold for a minimum of R$2.03bn (US$1.78bn) and R$1.01bn, respectively, in open outcry auctions on the São Paulo Stock Exchange.

A stake comprising 36.7 per cent of voting shares and 14.6 per cent of total capital in EPTE, Eletropaulo's transmission arm, will be sold later in the day for a minimum of R$148.8m.

Bidders were due to deposit guarantees at the exchange last night. Analysts expected at least two consortia to take part: VBC-Energia, composed of local groups Votorantim, Bradesco and Camargo Correa: and Light, a Rio de Janeiro distributor which was bought by CSN, the Brazilian steelmaker, Electricité de France, Houston Power and AES of the US in 1996.

Other foreign bidders, such as Enron of the US, were considered possible participants.

Both distributors cover dense markets with high concentrations of domestic and commercial customers and are seen as low-risk investments.

However, analysts said the companies would attract lower premiums to their minimum prices than those seen at sales of other electric utilities.

Under rules set by Aneel, Brazil's electricity industry watchdog, no distributor may control more than 25 per cent of the market in any one region. Metropolitana and Bandeirantes together control 26 per cent of a region covering central and southern Brazil, and must therefore be sold to different buyers.

Gustavo Gattass of Icatu, a Rio de Janeiro investment bank, said: "If there are only two bidders, they are almost certain to strike a bargain to keep the price low."

NEWS DIGEST

BRAZIL

Bell Canada group wins cellular concession

Brazil's sale of licences to operate so-called B-band cellular telephone services neared completion yesterday when a consortium including Canadian operators Bell Canada and Telesystem won a 15-year concession in the southern state of Rio Grande do Sul with a bid of R$334.5m (US$294m).

The bid brings to about R$8.2bn the amount paid for nine out of 10 B-band licences due to be sold. This compares with the government's initial estimate of about R$5bn. Other foreign groups in winning consortia include Bell South and Motorola of the US, Korean Mobile Telecom, DDI of Japan, Telia of Sweden and Telecom Italia.

The B-band concessions will compete with existing A-band cellular services operated by the state sector. These are due to be privatised later this year together with Brazil's fixed telephone network for at least $20bn. A tenth B-band licence, covering the thinly populated Amazon region, has been offered twice but attracted no bidders. A third offer is being prepared.

Yesterday's winning consortium, known as Telet, also includes Citicorp of the US and local banks BB Investimentos and Opportunity. It was the only qualified bidder under rules which limit operators to one licence in each of two regions; other potential bidders recently won other concessions in the same region. **Jonathan Wheatley, São Paulo**

ARGENTINA

Banco Mercantil to link with insurer

Argentina's Banco Mercantil is to merge with leading insurance group La Caja de Ahorro y Seguro to create one of Latin America's biggest banking and insurance companies. Mercantil is Argentina's 22nd largest bank in terms of deposits, which total over $500m. La Caja, the Argentine market leader in life and auto insurance, administers funds totalling $1.8bn. The group also controls the Banco Caja de Ahorro, the country's 43rd biggest bank with deposits of over $247m.
Ken Warn, Buenos Aires

ENERGY

Enron advances 14%

Net income at Enron Corp, the Houston-based gas and electricity group, rose 14 per cent on a like-for-like basis in the first quarter to 65 cents per share as core business growth offset rising losses in energy services. Setting aside a 24 cent per share one-off gain from the sale of liquids assets last year, profits last time were 57 cents.

The wholesale business was especially strong and the company made "significant progress" building services operations to exploit deregulated energy markets, said Kenneth Lay, chairman.

The operating loss before interest and taxes rose to $27m, or 6 cents a diluted share, compared with $14m, or 3 cents, last time. Enron Energy Services added telecommunications group Pacific Telesis and the California State University to its tally of customers in the reporting period, when it signed contracts worth about $850m of future revenues, bringing the total value of business signed up so far to more than $2bn.

Operating income from wholesaling rose 49 per cent to $249m in the quarter, while exploration and production remained static at $43m compared with $42m last time. Group net income was $214m on revenues of $5.7bn, compared with $22m on $5.3bn last time.
Christopher Parkes, Los Angeles

TELECOMS

GTE falls into the red

A hefty restructuring charge at GTE pushed the US telecoms group, which failed last year in its attempt to take over MCI Communications, into the red for the first quarter – despite strong growth in revenues and net income. The group, which warned of a $802m charge earlier this month, reported net losses of $178m or 10 cents a share, against net income of $665m, or 69 cents a share. Revenues rose 11 per cent to $5.88bn, while net income increased 10 per cent to $733m. Earnings per share rose 7 per cent to 76 cents per share prior to the charge.

Charles Lee, chairman and chief executive officer, said the revenue growth, the highest quarterly increase ever recorded, had been achieved through strong growth in new and value added services. **Christopher Price, San Francisco**

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Canada group wins
ular concession

CONSUMER PRODUCTS US GROUP UNVEILS THREE-BLADE RAZOR

Gillette seeks 30% of market with 'Mach3'

By Victoria Griffith in New York

One of the best-kept secrets in US industry is finally out: the new Gillette three-blade razor, christened the Mach3 in a much-hyped global launch yesterday.

Gillette has a lot riding on the success of the new shaver. The company has poured more than $1bn into the product, including $750m on manufacturing systems, $200m on research and development and $300m on marketing commitments over the next 18 months.

Despite the outlay, Bob King, executive vice-president, predicted the group would recoup its investment within three years.

Gillette has set ambitious sales goals for Mach3. The company expects the new system to achieve a market share of between 25 per cent and 30 per cent by 2000, making it the top-selling brand. While the corporation hopes about one-quarter of Mach3 users will be new Gillette customers, Mr King admitted that sales of the product are likely to cannibalise those of Sensor, the company's current generation of shavers.

The profit potential lies in the Mach3's higher cost. It will sell at between $6 and $7 a razor, a premium of between 25 per cent and 35 per cent over the Sensor. Because the new shaver will have a longer blade life, Gillette says the actual cost premium for consumers will be bewteen 10 per cent and 20 per cent.

The big question is whether men will be willing to pay more for each shave. That will depend largely on whether consumers' experience lives up to Gillette's lofty promises.

The new razor uses a three-blade system. The company has been experimenting with this technology since 1970, but failed to come up with an acceptable product until now. While three blades have always provided a closer shave, they also tend to irritate the skin. Gillette says that it has resolved this problem by recessing the first blade into the cartridge, to reduce the drag on skin.

The razor includes a new pivoting system, located in the cartridge rather than the handle; thinner blades; and automatic deposits of moisturiser and vitamin E on the skin. Rubber fins on the sides of the blades stretch the skin and hold hairs in place for a precision cut.

Even with the technological improvement, many consumers are likely to be unwilling, or unable, to pay for a more expensive shave. Gillette says it will continue to sell its lower-priced line to accommodate the lower end of the market, a segment that may gain in importance as the company pushes into developing economies in eastern Europe and India.

It will be difficult for consumers to miss the global launch of the razor. Gillette is staging an expensive marketing campaign to get the word out. Television advertisements for the shaver feature an aircraft flying at supersonic speed – Mach3 velocity in technical parlance.

Beating the performance of the Sensor generation will be difficult. That product, launched about nine years ago, gave Gillette a 70 per cent share of the world razor market. "Shavers currently provide about half the company's revenue. However, Mr King says double-digit sales growth, fuelled by Sensor, has been flattening – a sign that the group needed a new product.

According to Al Zeien, Gillette chief executive, changes to the manufacturing process are as important to the success of Mach3 as the razor itself. The company has installed new machines to handle production and moved to "continuous" movement on its assembly line. Gillette hopes the streamlined process will dramatically boost its profit margin.

Strong economy helps lift US paper groups

By John Authers in New York

US paper and building products' companies yesterday reported improved earnings as the strong economy and construction industry in the US helped them to recover slightly from a fourth quarter when profits were seriously dented by the Asian currency devaluations.

Shares rallied strongly for virtually all companies in the sector. They were helped by new research from Goldman Sachs which recommended upgrading the sector because cyclical trends were in its favour.

Goldman Sachs said: "Reflecting anticipated improvement in the pulp and paper pricing environment for the North American industry as a whole, we expect earnings per share to more than double, albeit from low estimated levels in 1998."

A recovery last year was halted by the Asian crises, which sharply reduced the prices offered by paper manufacturers in south-east Asia while reducing demand. Paper prices are now improving, although pulp prices remain weak.

Marc Wilde, paper analyst at BT Securities, counselled caution: "We've seen the biggest droops for a long time in pulp inventories, and it took a lot of industry down-time to do that. There's no doubt that inventories coming down is good news, but we are seeing some pressure on paper prices, and I think the signals are very mixed."

International Paper, the largest US paper company and a constituent of the 30-company Dow Jones Industrial average, announced that profits had more than doubled since the first quarter last year, with earnings rising from $34m to $75m.

Weyerhaeuser reported profits of $85m for the quarter, up on the $46m in the same period last year, but down on the fourth quarter last year.

Wood products' operating profits were almost static at $173m owing to weak export demand, while pulp and paper registered a strong increase at $52m, compared with $6m a year earlier.

Steven Rogel, chief executive of Weyerhaeuser, said: "While we see some improvement in a number of our products, the situation in Asia continues to create uncertainty around prospects for a number of our businesses."

Boise Cascade took a loss of $1.2m, significantly reduced from the $15.2m loss in the first quarter of last year.

Sales increased, thanks to stronger demand for office products and higher paper products. The performance at its building products division deteriorated slightly.

Bowater reported a sharp decrease in earnings at $24.8m, which included a $6.7m gain on the sale of timberlands, following a loss of $300,000 in the equivalent quarter.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 15.04.98 — Final Prices for Trading on 18.03.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	15.68	17.35	17.45	1.02
0100	15.68	17.40	17.50	1.02
0130	15.74	38.38	38.48	1.02
0200	24.62	38.38	38.48	1.02
0230	24.62	17.40	17.50	1.02
0300	24.62	17.40	17.50	1.02
0330	24.62	17.40	17.50	1.02
0400	24.62	17.40	17.50	1.02
0430	21.21	18.16	18.16	0.00
0500	21.21	16.14	16.14	0.00
0530	18.98	16.02	16.02	0.00
0600	18.98	16.02	16.02	0.00
0630	16.42	16.03	16.03	0.00
0700	15.78	18.00	18.00	0.00
0730	23.09	24.91	25.01	1.02
0800	25.97	24.91	25.01	1.02
0830	29.89	27.19	27.29	1.02
0900	38.99	35.33	35.43	1.02
0930	48.76	39.72	39.82	1.02
1000	49.63	39.72	39.82	1.02
1030	41.61	35.33	35.43	1.02
1100	37.48	27.94	28.04	1.02
1130	42.88	27.94	28.04	1.02
1200	44.39	27.94	28.04	1.02
1230	54.89	27.94	28.04	1.02
1300	51.16	27.94	28.04	1.02
1330	35.18	27.94	28.04	1.02
1400	28.61	27.94	28.04	1.02
1430	65.67	27.94	28.04	1.02
1500	94.66	27.94	28.04	1.02
1530	40.09	25.35	25.46	1.02
1600	24.80	25.35	25.46	1.02
1630	25.25	27.94	28.04	1.02
1700	41.23	27.94	28.04	1.02
1730	40.62	27.94	28.04	1.02
1800	39.46	27.94	28.05	1.02
1830	30.29	34.14	34.25	1.02
1900	29.98	48.15	48.27	1.02
1930	28.90	48.15	48.27	1.02
2000	16.57	48.12	48.23	1.02
2030	30.21	37.18	37.28	1.02
2100	42.65	27.94	28.04	1.02
2130	44.97	31.18	31.28	1.02
2200	29.48	24.17	24.27	1.02
2230	29.40	18.02	18.12	1.02
2300	29.39	17.37	17.48	1.02
2330	21.49	17.37	17.48	1.02
2400	15.75	17.37	17.48	1.02

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

Energy Settlements and Information Services Limited

Intel to unveil 'basic PC' chips

By Louise Kehoe in San Francisco

Intel will today unveil a new range of microprocessor chips designed for use in low-cost personal computers. But industry critics say the new Celeron chips lack the performance of competitors' devices.

The Celeron products mark a departure from Intel's strategy of building ever-faster and more powerful microprocessors to drive demand for new PCs. Instead, the company has bowed to market demand for lower-priced chips.

The devices will be used in PCs expected to sell in the US for less than $1,000. As many as 40 computer makers – including Compaq Computer, the world's largest PC company – are set to introduce new machines based on Celeron chips.

PCs selling for less than $1,000 already represent the fastest-growing segment of the market. They offer most of the features of machines selling for twice the price and are proving very popular with consumers. Corporate buyers are also showing rising interest in the lower-cost PCs.

Intel dominates the world market for microprocessors. However, competitors have gained a foothold in the "basic PC" segment, where Advanced Micro Devices and National Semiconductor together claim a 25 per cent market share.

Today, National is also expected to introduce new microprocessor chips which it claims will outperform Intel's Celeron chips.

With Celeron, Intel aims to reclaim the low-end PC segment. However, analysts say the new chips will not perform as well as earlier Intel Pentium chips or competing devices from AMD and National.

The new chips are based on the same design as Intel's fastest Pentium II chips but lack a memory device that feeds data more quickly to the microprocessor. While lowering costs, this slows the performance of the Celeron microprocessor significantly, say analysts.

New versions of Celeron expected later in the year will include the memory device and have higher performance, according to analysts. These products could mark the beginning of an important new generation of high-performance, low-cost PCs, they predict.

The Celeron launch came ahead of an anticipated downturn in Intel's quarterly earnings, which were scheduled to be announced late yesterday. The shift towards lower-priced PCs and microprocessors appeared to be one of the causes of Intel's earnings decline, analysts said.

Intel alsoannounced an alliance with Silicon Graphics, the struggling computer workstation manufacturer. Silicon Graphics will gradually adopt Intel microprocessor technology in a new generation of workstations. Silicon Graphics will also build servers and super-computers with Intel chips.

Conrad Black takes a big gamble in Canada

New national newspaper may please readers but investors will need persuading, writes **Edward Alden**

Conrad Black: the Hollinger International chairman has often profited by defying conventional wisdom — Ashley Ashwood

When Conrad Black consolidated control last year over Southam, Canada's largest newspaper group, a shudder went through newsrooms from Halifax to Vancouver.

While Mr Black, the Montreal-born chairman of Hollinger International, owns several newspapers internationally, including the Daily Telegraph in the UK and the Jerusalem Post, his record in Canada had been less than reassuring.

Starting with his purchase of Quebec's Sherbrooke Record in 1969, he slowly built a newspaper empire by purchasing small, loss-making daily newspapers, cutting back sharply on staff and news coverage and wringing out handsome profits for further acquisitions.

But since taking a 59 per cent share in Southam, Mr Black has surprised even his fiercest critics by hiring reporters and editors, building new printing facilities and improving both quality and returns at the previously lacklustre group. Circulation is rising at most of the chain's 33 daily newspapers, advertising is up and profits increased 36 per cent in the fourth quarter of 1997.

Having reassured those who produce the newspapers, Mr Black's task will now be to do the same for those who invest in them.

In one of his larger gambles to date, Southam announced plans last week to launch a new national newspaper in Toronto that would compete with four other daily newspapers, two of them business-oriented national papers, in Canada's largest city. The launch in the autumn will make Toronto the most competitive newspaper market in North America.

The immediate reaction was discouraging. Southam stock, which had climbed from a low of less than C$13 in 1995, immediately dipped 55 cents to C$27.10 on Wednesday, and lost another C$1.10 to close at C$26 on Thursday.

Recent history does not offer much encouragement. USA Today, the US broadsheet that pioneered full-colour reproduction in 1982, lost more than $1bn over a decade before turning a profit. In the UK, The Independent started with a flourish in 1986, but has since fallen on hard times.

Some analysts are sceptical that Mr Black's new venture will fare any better. "It's extremely difficult to come up with an estimate of how deep the losses will be," says Michel Perrault of MGP Media Consulting in Montreal. "But there's no question they will be deep."

Judy Goddard, vice-president at McKim Media Group, the biggest media buyer in Canada, says the new venture can only succeed by taking readers from other papers. The danger is that those readers will come from Southam's own papers.

But throughout his career, Mr Black has profited from defying conventional wisdom. To those who predicted the imminent death of newspapers in the face of competition from cable and satellite television and the internet, Mr Black chuckled and went on buying.

"Maybe newspapers are actually one of the few mass media left when you get all the fragmentation of the internet and broadcasting," says Donald Babick, president and chief operating officer of Southam, who will head the new launch.

Mr Babick says Southam will not face the same hurdles as other start-ups because it already has a network of printing presses, distribution channels and reporters across the country, although it has no presence in Toronto.

The company is projecting maximum start-up costs of C$180m (US$91m) and profitability in five to seven years. Mr Babick says the paper will be a high-quality, intelligently written journal, setting it squarely against The Globe and Mail, Canada's leading national paper, and The Financial Post, a national business daily which is 20 per cent owned by Pearson, owner of the Financial Times.

The immediate winners will be Canadian newspaper readers. Ken Thomson, chairman of Thomson Corp, says its flagship Globe and Mail will respond by further improving its already high standards. "I don't see how it can help but be good for readers," he said. "Competition does tend to stimulate improvements in quality."

While advertising rates are likely to drop, Mr Thomson does not expect "vicious competition" of the type that has embroiled the UK's national papers for the past decade – particularly the price war between Mr Black's Daily Telegraph and Rupert Murdoch's The Times.

CONSUMER CREDIT FRENCH GROUP'S DIVESTMENT WILL STRENGTHEN FOCUS ON UTILITIES

Suez-Lyonnaise to sell Sofinco

By Neil Buckley in Paris

France's Suez Lyonnaise des Eaux continued to refocus itself on the utilities sector yesterday as it announced a FFr9.15bn ($1.5bn) deal to sell Sofinco, its consumer credit business, to Crédit Agricole, the French bank.

It also made clear it was keen to acquire full control of its partly owned Belgian subsidiary, Société Générale de Belgique.

The agreement to sell Sofinco, France's second biggest retail consumer credit business, follows the sale by the then Compagnie de Suez in 1996 of Banque Indosuez, also to Crédit Agricole, and a string of other disposals totalling FFr14bn in 1997, and FFr7bn so far in 1998.

The disposals are designed to concentrate the group on the four core businesses of energy, water, waste management and communications, identified since its formation through the merger of Suez and Lyonnaise des Eaux a year ago.

In a further step towards simplifying its structure, Suez-Lyonnaise confirmed speculation in Belgium that it was studying a buy-out of the 36.4 per cent of Société Générale de Belgique, known locally as La Générale, that it does not already own.

Gérard Mestrallet, chief executive, said a buy-out would create a "simpler and more compact group".

It would also remove the discount to net asset value at which La Générale's shares have long traded.

La Générale owns 50.3 per cent of Tractebel, the fast-growing Belgian energy and utility group.

In an attempt to soothe Belgian concerns over a full takeover of La Générale, Mr Mestrallet insisted such a move would "reinforce the Franco-Belgian dimension" of the Suez-Lyonnaise group.

The Suez chief also made clear his support for a banking link-up of Générale de Banque and Fortis, which are both subsidiaries of La Générale.

The sale of Sofinco, which had net profits of FFr500m last year, will take place in two stages.

In January 1999, Crédit Agricole will exercise a call option on 18 per cent of the business, as part of an agreement made with Suez in 1993, and will buy a further 52 per cent in cash.

It will acquire the remaining 30 per cent a year later. The total value of the transaction, excluding the call option, is FFr9.15bn.

The news came as Suez-Lyonnaise revealed that pro-forma net income more than doubled last year from FFr1.98bn to FFr4.01bn. Group turnover increased 10 per cent from FFr173.2bn to FFr190.4bn.

A net dividend of FFr15 per share is proposed.

Skoda Plzen finds it hard to break nasty habits

Czech group needs to sell non-core operations and restructure its balance sheet, writes **Robert Anderson**

Skoda Plzen, the biggest Czech engineering group, has a nasty habit of surprising analysts with results that fail to meet its forecasts.

After lowering its 1997 profit prediction from Kc600m to Kc100m ($2.92m) during the year, Skoda stunned the market this month by reporting a preliminary 1997 consolidated net loss of Kc1.78bn – the third consecutive year of heavy losses.

Afterwards the company's shares fell for several days by the maximum allowed on the Prague stock exchange – by more than one-third to about Kc340 – and analysts believe they may sink to Kc300.

Skoda is a cornerstone of the Czech economy. It separated from the carmaker of the same name after the second world war.

The group had already postponed to the second half of this year a Kc2.5bn equity increase because its shares had dropped to less than half their nominal value of Kc1,000. The latest bad news, analysts believe, makes an issue this year impossible.

Lubomir Soudek, the fiercely independent chairman of Skoda who holds 25 per cent of the shares mainly through his personal company Nero, had only grudgingly accepted the need for an equity increase.

But the issue had become pressing because the company's bank loans reached Kc12bn – compared with its capital base of Kc9.5bn – costing it Kc1.25bn in interest charges last year.

One-third of these loans – an estimated Kc4bn – is owed by Tatra and Liaz, two truckmakers Skoda bought in the mid-1990s and has struggled to restructure. Tatra returned to profit last year but losses at Liaz deepened to Kc520m.

When Skoda put the truckmakers up for sale last year, analysts were delighted the company seemed to be tackling its debts. However, Skoda withdrew them from sale in December, saying the whole process had been a charade.

"We needed to convince ourselves how seriously we were taken by our competitors," says Mr Soudek. "Six interested parties appeared. This showed us that they have a future."

With both truckmakers expected to be profitable this year, Mr Soudek says he wants to sell a stake to a financial investor to pay off the debts, and then merge them as Skoda Truck.

Mr Soudek has always found it difficult to make disposals. The group's fifty-odd subsidiaries produce a bewildering array of products from locomotives to tin cans, steel ingots to power station equipment.

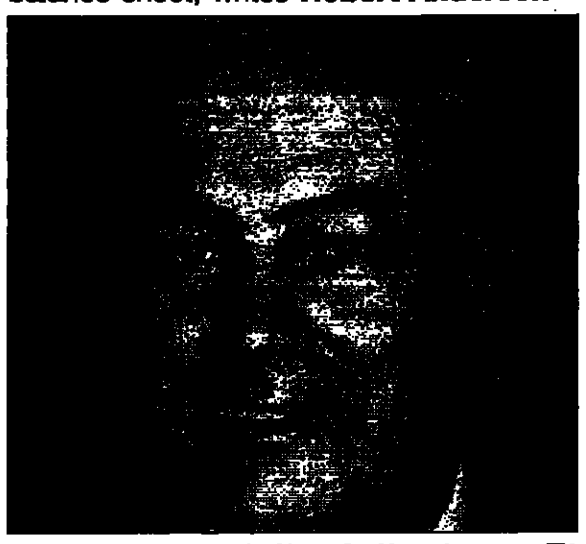
Analysts want the group to slim down and focus on its profitable lines such as trolley-buses. But Mr Soudek seems to have taken upon himself the mission to run a hospital for the country's ailing engineering companies.

Apart from the truckmakers, Skoda has bought Unformtechnik, an east German manufacturer of presses for the car industry which made a loss of Kc250m last year, and has invested Kc800m in an aluminium can factory which incurred a loss of Kc270m. It is now trying to sell Skoda Can, along with Skoda Energetika, its power generation subsidiary.

The company is negotiating to add another four loss-making engineering companies. But it has still not restructured the companies it has bought and there is a danger that further acquisitions will spread management expertise too thinly.

"If there was any hope of an improvement in performance, these purchases would end it," says Ondrej Datka, an analyst at Patria Finance in Prague. "The objective seems to be to grow bigger rather than increase profitability. If they want to raise equity they should realise that shareholders want to see profits."

The real task for Skoda, according to analysts, should be to sell its fringe operations and accelerate restructuring of its core areas, some of which, like specialist steel, also ran up big losses last year.



Lubomir Soudek: hopes for 'healthy profits this year' EPA

This, together with an equity issue, would make it easier to repay debts, cover the Kc2bn provisions needed for risky contracts last year, and give it capital to invest in niche areas and finance export deals.

These problems threaten to overshadow Mr Soudek's success in rescuing the group from near bankruptcy in 1992 when its traditional markets collapsed.

Mr Soudek first built up new markets in west Europe and the developing world, and then began returning to the former Soviet Union. Exports make up three-quarters of sales and have shot up from Kc5.1bn in 1995 to Kc18.4bn last year.

But the group has found it difficult to convert sales into profits. Lack of restructuring means productivity remains low, fixed costs are high and margins tight. "They will take a contract with very low or no margin just to use capacity," says Mr Datka.

Skoda yesterday announced further attempts to cut costs and sell assets, and it has forecast profits of about Kc900m for this year. Mr Soudek says: "The subsidiaries took longer to bring back to life than we hoped, but we think we will begin to generate healthy profits this year."

This time, analysts hope he has got it right.

Surprise growth from SAP in quarter

By Andrew Fisher in Frankfurt

SAP, the German business software group, surprised the stock market yesterday by announcing a further steep rise in business during the first quarter after previously warning its rate of expansion would slow sharply this year.

The company said expectations had been exceeded in the first quarter with a 62 per cent increase in both sales and costs. The shares responded with a rise of DM49 to DM824.

SAP said its performance had benefited from continuing strong demand for business software applications and from favourable currency trends. The strength of the dollar against the D-Mark has been a strong influence behind Germany's powerful export performance and stock market rise.

The company said its results for the first quarter would be released on April 21. In 1997, SAP achieved a 62 per cent turnover rise to DM6.02bn ($3.3bn), with pre-tax profits up by 72 per cent to DM1.67bn.

SAP leads the market in enterprise resource planning software, used by international companies to manage their operations, and forecast last month that sales would grow at a more moderate rate of between 30 per cent and 35 per cent in 1998. Yesterday it was still sticking to this forecast, at least until it had studied the preliminary figures closely.

The extent to which companies' software preparations for the euro and the year 2000 had continued to enhance SAP's revenues was unclear, it added. This made it hard to assess progress over the rest of the year.

SAP said in March that costs could rise faster than sales this year because it planned to recruit about 5,000 people. Expenses of the planned employee share compensation plan would also affect results.

Bankgesellschaft Berlin said it expected SAP's pre-tax figure to be 45 per cent this year higher at DM2.4bn, with turnover advancing 47 per cent to DM8.84bn.

NEWS DIGEST

TELECOMS

OliMan lifts interest in Italian phone operator

OliMan, the joint venture between Olivetti and Mannesmann, yesterday raised its stake in Omnitel Pronto Italia, Italy's second mobile phone operator, to about 40 per cent as part of a complex deal that involved the sale of shares in the group by Telia of Sweden.

In a transaction worth some $480m, Olivetti, Mannesmann and Bell Atlantic announced that they had bought Telia's 9.66 per cent stake in Omnitel Sistemi Radiocellulari, the company that owns 70 per cent of Omnitel Pronto Italia. Through the OliMan joint venture, Olivetti and Mannesmann have bought two-thirds of the Telia investment, equivalent to 6.43 per cent of Omnitel Sistemi Radiocellulari. Bell Atlantic has bought the remaining one-third.

The deal means that Olivetti's interest in the mobile phone operator has risen from 26.6 per cent to roughly 30 per cent. Mannesmann's interest – through OliMan and Pronto Italia – rises to 18.3 per cent while Bell Atlantic's share rises to 19.7 per cent. The deal marks the first investment made by Olivetti following a wave of sales and disposals of non-core businesses over the last one and a half years. Omnitel Pronto Italia, which has some 3,000 employees, had revenues in 1997 of L1,800bn ($1bn). **James Blitz, Rome**

ENERGY

IVO-Neste offer for Neste stake

IVO-Neste, the joint holding company being formed by the impending merger of Neste and Imatran Voima, the Finnish energy groups, is to offer FM168.10 a share for the 16.8 per cent stake in Neste not held by the Finnish government. Under the terms of the merger, the stake – which arises from Neste's part privatisation in 1996 – will be exchanged for shares in IVO-Neste. Terms for the initial public offering are due to be announced by April 29. Neste shares rose FM1.10 to FM170.10 yesterday. **Greg McIvor, Stockholm**

INSURANCE

SE-Banken cuts Sampo holding

Shares in Sampo fell 5 per cent yesterday after Sweden's Skandinaviska Enskilda Banken cut its stake in the Finnish insurer. SE-Banken said its Trygg-Hansa non-life insurance subsidiary had cut its holding in Sampo from 7.2 per cent to 2.4 per cent, yielding a SKr500m ($63.6m) capital gain. The holding was sold to Unsa, a Sampo affiliate, at FM255 a share. Unsa said the purchase increased its holding to 15.3 per cent. Sampo's shares, which had made strong recent gains amid speculation that the company might be a bid target for SE-Banken, tumbled FM28 before recovering to close at FM242, down FM13 on the day. **Greg McIvor**

TOBACCO

Strong interest in Tabacalera

The privatisation of up to 52.3 per cent of Spain's Tabacalera, the tobacco producer and distributor, bore all the hallmarks of success on only its second day yesterday, with bids from small investors outstripping those on offer. The state is selling an initial stake of 46.92 per cent which may be extended to 52.3 per cent if demand warrants. In late trading yesterday Tabacalera was up Pta190, or 5.14 per cent, to Pta3,890. At this price the initial offering by the state is worth about Pta336bn ($2.2bn). **Reuters, Madrid**

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TELECOMS LISTED ARM OF CHINA TELECOM UNVEILS ACQUISITION AS RESULTS BEAT EXPECTATIONS

CTHK poised for mainland cellular buy

By Louise Lucas in Hong Kong

China Telecom (Hong Kong), the listed arm of China's dominant telecoms operator, is poised to acquire one of the biggest cellular networks on the mainland.

The company, announcing its first results since it listed in New York and Hong Kong last October, said yesterday its acquisition of the Jiangsu network was now awaiting regulatory and government approval.

Expectations of the asset injection – to be made by its parent, the Ministry of Information Industry, which last month subsumed the Ministry of Posts and Telecommunications – have pushed China Telecom's share price higher in recent weeks.

The company beat market expectations and its own predictions with a profit of HK$4.63bn (US$597m) for 1997, up 10 per cent on the previous year's HK$4.21bn. The comparisons are adjusted and not all accounting changes have been fully implemented, as the company was listed for only two months before the year-end.

Analysts said the result was higher than forecast because of non-core items, including lower-than-expected tax expenses. One of the biggest windfalls came from interest income, with proceeds from the October flotation being banked when interest rates in Hong Kong were at historical highs.

Some analysts calculate this could have accounted for as much as HK$500m. CTHK kept 60 per cent of its HK$32bn proceeds in Hong Kong dollars, with the balance split between Chinese yuan and US dollars.

The company now has two cellular networks, in Guangdong and Zhejiang provinces, with a total of 3.4m subscribers at the end of 1997 – an increase of 67 per cent on the previous year. Growth was higher in Zhejiang, where subscribers grew 90 per cent from a lower base. In the first quarter of this year, a further 352,000 subscribers have been added.

Jiangsu is expected to show equally strong growth – it is China's third biggest cellular market, with 880,000 subscribers. However, its potential is far greater – penetration is just 1.2 per cent, or one-third of the level in Guangdong province, and the population is relatively wealthy.

CTHK will use internal resources to fund the Jiangsu network, which is estimated to cost between US$2bn and US$4bn. The group has net cash of Yn35bn (US$4.2bn), but has also pledged to increase capital expenditure to expand and modernise existing networks.

Shi Cui-ming, chairman of CTHK, said the group would spend Yn11.3bn on investments this year. "We will increase our investment in advanced technology, enhance our management . . . and enhance our customer services to secure a competitive advantage."

Earnings per share for 1997 were 49 HK cents, against a forecast at the time of the IPO of 43 cents. The company said it would not pay a dividend.

Japan's private railways signal danger ahead

Government plans to transfer Y360bn debt are under attack, writes Bethan Hutton

For a company president, a share price at an all-time high is usually something to celebrate. But for three of Japan's largest privatised companies, the stock market's enthusiasm comes at an awkward juncture.

The trio of privatised railway companies listed on Tokyo stock exchange appear as beacons of hope in an otherwise despondent market. West Japan Railways (JR West) set a new all-time high of Y492,000 last week. East Japan Railways is Y5,000 below its record high of Y639,000, set on March 17, while Central Japan Railways yesterday revisited its record high of Y440,000, seen on March 24.

But the highs come after warnings from the companies that government action could severely dent their profitability and cripple future privatisations.

Shojiro Nanya, president of JR West, and his counterpart at JR East, Masatake Matsuda, are leading a campaign to make the government abandon its old habit of treating Japanese companies as an instrument of government policy.

Their immediate concern is over government plans for disposing of the mountain of debt left over from the privatisation of Japan National Railway in 1987. JNR was split into six regional railway companies and one freight carrier, which took on Y14,500bn ($112bn) of debt between them. The remaining Y22,700bn of debt was entrusted to a new entity, JNR Settlement Corporation, along with assets including land and shares in the regional railways.

The aim was for JNR Settlement to pay off the debt over 10 years by selling land and shares, and then wind itself up this year. In reality, due to mismanagement and the stock and property market crashes, the debt has grown to more than Y28,000bn. The government has been looking for ways to prevent all this falling on taxpayers, and earlier this year formulated a bill which would transfer a Y360bn portion of the debt, relating to pension liabilities for former JNR employees, to the seven privatised JR companies.

The JR companies reacted with outrage. They argue that this would not only be a violation of the privatisation terms, but would deter investors from future Japanese privatisations.

The bill has not yet been put before the Diet (parliament), and the JR companies are still campaigning against it. Unusually for Japan, they confronted the government publicly, rather than lobbying individual bureaucrats or politicians. Mr Nanya accuses the government of "socialistic tendencies", and he and Mr Matsuda have threatened legal action if the bill is passed.

One hope is that the government may be too busy with economic measures to get to the JR bill during the current Diet session, but Mr Nanya is not relaxing his guard.

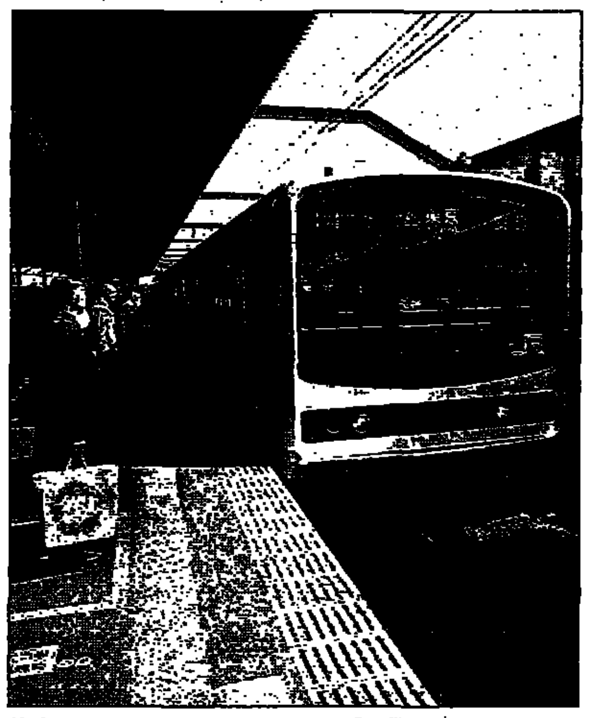
This week, he will visiting institutional investors around the UK. Overseas investors hold about 10.4 per cent of JR West's shares, but take a far more active interest in corporate affairs than their Japanese counterparts. The JR companies hope pressure from overseas might help force the government to back down – but it may be difficult to arouse the shareholders when their investments are doing so well.

"It is rather unhelpful for their cause, because the government can turn around and say that investors don't seem to be bothered about it," says Richard Whitehurst, transport analyst at United Bank of Switzerland in Tokyo.

Mr Nanya is puzzled. "I think it is correct to say that our share price has nothing to do with the business results we have reported, or our performance." According to Mr Whitehurst, JR companies are attractive in the current climate as they have the steady revenue of a utility, but with the promise of substantial cost savings as the top-heavy ranks of middle-aged former JNR employees reach retirement.

More than 40 per cent of their employees are over 45, and the JR companies' cost structures will be transformed as they retire and are replaced with cheaper, younger workers. The retirements will also provide an opportunity to cut overall staff numbers.

Yet Mr Nanya and his colleagues are not about to submit gracefully: the issue is one of principle. "It has nothing to do with the amount of money they have requested from us," he says. "What concerns us most is that if the government is willing to do this once, they could do it again."



Aiming to stay on the rails: railways' profitability is threatened

Hussain to give Sime details

By Sheila McNulty in Kuala Lumpur and agencies

Rashid Hussain, one of Malaysia's most powerful bankers, who has taken control of Sime Bank, the Malaysian financial institution most affected by the regional crisis, is to announce by Friday details of how he will finance the bank purchase.

Although analysts wonder why Mr Hussain decided to take on Sime Bank, they are sure he must have found a way to turn the purchase to his advantage.

Mr Hussain took over the management of Sime Bank last Friday, and plans to merge it with his RHB Bank.

Last month Sime Bank reported a pre-tax loss of M$1.81bn (US$495m) for the six months to December 31 1997.

Bank Negara, the central bank, revealed Sime Bank needed M$1.2bn to meet capital requirements.

The losses were so considerable that the authorities said they would investigate the cause.

News that Mr Hussain had been given a four-day extension, until Friday, to make an announcement on the funding arrangements for the Sime purchase pushed market sentiment down yesterday.

"People are afraid that something is amiss in this deal," said one trader.

The Kuala Lumpur Stock Exchange said approval for the extension was granted because details of the funding were not yet complete.

Mr Hussain, who had been in negotiations to purchase another institution, Bank of Commerce, agreed to pay M$852.4m for Sime Bank.

In a country where there is a symbiotic relationship between business and politics, some analysts suggest he wants to placate the authorities after allegedly falling out of favour with Dr Mahathir Mohamad, the prime minister.

Others suspect he is doing the "national service" Malaysian leaders require of successful corporate figures and in return they will provide assistance to help with the purchase, perhaps via the national pension fund.

Mr Hussain has indicated the buy-out is simply business as usual for the group: "It is my job to protect shareholders' interests. If, in the process, I do national service, then that is fine."

On Friday, he named Yvonne Chia, chief executive of RHB Bank, as chief executive of Sime Bank, with immediate effect.

Balrampur to buy rival in Rs195m deal

By Kunal Bose in Calcutta

Balrampur Chini Mills, India's largest and most profitable sugar group, is to acquire Tulsipur Sugar, paying Rs195m ($5m) for a 71 per cent stake in its rival.

Balrampur intends to increase Tulsipur's cane-crushing capacity to strengthen its own position in the market.

"As we acquire the 51 per cent holding of the promoters of Tulsipur, we will be making an open offer for an additional 20 per cent capital of the company. At Rs50 a share the cost of acquisition of 71 per cent of Tulsipur will be Rs195m. The payment for the acquisition is to be made from Balrampur's reserves of over Rs1bn," said Mr Vivek Saraogi, managing director of Balrampur.

Om Dhanuka, analyst at Indian Sugar Mills Association, said: "Since the Tulsipur factory is in close proximity to the two units of Balrampur in Uttar Pradesh, the country's largest cane-growing state, the acquisition will yield considerable synergistic benefits.

"The management will be able to distribute the crop in the area among the three factories in such a way as to ensure the completion of crushing of cane between November and March when the yield of sugar from cane is the highest."

Industry officials say that since Balrampur, unlike most sugar groups, settles cane bills quickly, farmers around the Tulsipur factory will have an incentive to bring more land under the crop.

"We are not acquiring Tulsipur to run it at the present daily cane-crushing capacity of 2,500 tonnes. Once we are in the saddle, we will double the factory's capacity in the first phase of expansion. The expansion will be funded by debts and there will be no dilution of equity," said Mr Saraogi.

Balrampur has a daily cane-crushing capacity of 16,000 tonnes.

Mr Dhanuka said: "It will not be long before Tulsipur is merged with Balrampur. This will add to shareholder value. Tulsipur is a profitable group with practically no debts. Building a greenfield factory of the size of Tulsipur will cost over Rs550m. And getting a licence from the government for a new sugar unit is highly time-consuming."

Ten Network surges

By Mark Mulligan in Sydney

Shares in Ten Network Holdings, a new holding company for one of Australia's three main commercial television stations, yesterday rose surged 18 per cent on their first day of trading on the Australian Stock Exchange.

The shares finished 39 cents ahead of the issue price, at A$2.54, valuing Ten Network at about A$2.36bn (US$1.55bn). The rise came amid a record day on the ASX, with the main index closing up 35.1 points higher at 2,840.9.

Ten Network is the former Telecasters North Queensland, a longstanding Ten Group shareholder which was restructured partly as a vehicle to float 174.2m shares held by CanWest Global Communications, the Canadian media group. CanWest was forced to offload more than half its 33.75 per cent stake after it contravened Australia's tough rules on foreign ownership of media.

Yesterday's debut followed healthy retail and institutional interest in the shares which analysts said were the only pure commercial TV play in the country.

CHEMICALS MANAGEMENT BUY-OUT OF BELGIUM-BASED BUSINESS ALLOWS IT TO CONCENTRATE ON SPECIALITY ACTIVITIES

Inspec sells commodity side for £84m

By Roger Taylor

James Ratcliffe, managing director of Inspec Group, is leading an £84m ($140m) management buy-out of the chemical company's commodity business.

The deal will leave him with more than 30 per cent of Ineos, a new company formed to buy the Antwerp-based operations.

The deal is Mr Ratcliffe's second leveraged management takeover. He also owns about 4 per cent of Inspec, which he acquired in 1992 when the group was formed from a management buy-in of British Petroleum's speciality chemicals arm.

He is now buying-out the ethylene oxide and glycol business which Inspec bought from British Petroleum in 1995. Inspec bought the business because it supplied raw materials to its specialities operation.

However, ethylene oxide and glycol are commodity chemicals which suffer from cyclical swings in price and profitability and do not sit well with Inspec's other more specialised products in areas such as agrochemicals, lubricants and fragrances.

John Hollowood, chairman of Inspec, said the sale would allow the company to focus on its speciality businesses and added that this should promote a re-rating of the shares. Investors tend to give lower ratings to commodity businesses than to higher margin and more stable speciality businesses.

His view was confirmed by a 34½p jump in Inspec's share price to 277p.

Analysts welcomed the move, even though the sale would dilute earnings. Merrill Lynch, the US investment bank, upgraded its recommendation to a buy and said Inspec was selling just as prices of ethylene oxide and glycol were starting to fall.

Mr Hollowood said last year had seen near peak operating profits of £13m on sales of £92m and the second quarter of 1998 was proving less profitable than the first. At the low points in the cycle, the business only just broke even, he added.

The buy-out is backed by Murray Johnstone, the Scottish investment house, which is putting in £10m for a minority equity stake. Management is investing £1.5m for a majority holding. The remaining funds will come from bank facilities and a high-yield bond arranged by Bankers Trust, targeted to raise DM190m ($104m).

Murray Johnstone said the business generated strong cash flow even when profits were weak. The company would seek to expand in speciality chemicals before seeking a trade sale or flotation in about five years, by which time prices for ethylene oxide and glycol should have recovered.

ABF warning on strong pound

By Jonathan Ford

Associated British Foods warned yesterday that profits were likely to fall this year because of the strength of sterling, which has squeezed sales and margins at its British Sugar arm.

ABF issued the warning as it reported an £8m fall in pre-tax profits to £183m ($306m) for the six months to February 28. The group said the strength of sterling had reduced profits by about £22m – £15m attributable to British Sugar. Sales – on continuing activities - were 5 per cent lower at £1.97bn.

The results were below analysts' forecasts and the shares fell 28½p to 597½p. Analysts cut full-year forecasts from about £435m to £400m-£420m.

"Clearly, we are not very pleased with these figures," said Garry Weston, chairman. "But if you added back the £22m that we lost due to currency fluctuations in the first half, I think it would have been a quite respectable performance."

Operating profits at British Sugar fell £11m to £73m. ABF said it had experienced strong competition in the UK market as well as tough conditions in its Polish and Chinese operations.

Mr Weston said British Sugar had worked hard to improve productivity only to see the gains eroded by the currency factor.

Sterling's strength also hit the group's animal feeds division, where sales and profits fell in spite of being adversely affected last time by the BSE crisis.

Mr Weston also signalled that ABF would not be rushed into spending its £1.5bn cash pile while valuations in the food industry remained as high as at present. ABF made £53m on its cash balances in the half, up from £22m last year.

"I am not happy to sit on this cash for ever, but our philosophy is that unless we can do something that makes commercial and financial sense, we would rather not take risks for the sake of size," he said.

Garry Weston: not happy to sit on £1.5bn cash for ever   Colin Beere

ABF has been seeking acquisitions since selling its Irish supermarkets business last March for £640m. Mr Weston then indicated that ABF was prepared to spend up to £3bn on the right deal.

However, in spite of a number of opportunities last year, including the sale of Dalgety's ingredients division, ABF has failed to make any substantial moves.

"The market is high and is getting higher," said Mr Weston. "Historically, it comes back and companies that have amalgamated hive off major divisions."

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
AB Foods	6 mths to Feb 28	1,968	(2,659)	193	(201♥)	14.5	(14.5)	4.25	-	4.25	-	15⅓
Bridgend	Yr to Dec 31	24	(14.1)	0.228	(0.148)	0.6	(0.5)	0.1	July 8	0.1	0.2	0.2
Dowding & Mills	6 mths to Dec 31	59.3	(61.3)	0.844♠	(7.12)	2.24♦	(2.84)	1.13	May 15	1.13	-	3.19
Electronics B'tique	Yr to Dec 31	124.3	(74.1)	7.96♠	(0.495)	2.98	(0.19)	nil	-	nil	nil	nil
Pex	Yr to Dec 31	14.5	(10.2)	0.263	(0.507)	0.17	(0.6)	0.1	-	nil	0.1	nil

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Quester VCT	Yr to Jan 31 ☆	107.6	(97.2)	0.698	(0.268)	2.59†	(2.83)	1.5	May 14	1.25	2.3	2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ⅓Includes 5p special. ♦Before exceptional. ☆Comparatives for 58 weeks to Jan 31 1997.

SB optimistic after merger breakdown

By Tracy Corrigan in New York and Daniel Green in London

SmithKline Beecham, the UK drugs company, yesterday set out to rebuild investor confidence in its prospects as an independent company, following the collapse of merger talks with rival Glaxo Wellcome two months ago.

Jean-Pierre Garnier, SKB's chief operating officer, said the company's pipeline of drugs and vaccines would "translate into sustained growth well into the next millennium".

Dr Garnier said that in the longer term, rapid advances in molecular biology offered "unprecedented drug-discovery opportunities".

Asked about the failed Glaxo deal, he said: "We have looked [at deals] in the past and will look in the future." But he insisited: "We don't need any help."

Among SmithKline products currently moving through clinical trials are Avandia, for the treatment of type 2 diabetes, which has progressed to phase III trial. Regulatory applications for Avandia are expected to be filed in the US and Europe within 12 months.

The drug would compete with troglitazone, sold in the US by Warner Lambert and for which Glaxo has the European marketing rights. However, troglitazone has been associated with liver damage and Glaxo has withdrawn it in Europe.

SmithKline also highlighted Idoxisene, a selective oestrogen-receptor modulator in phase III trial for the prevention of osteoporosis and phase II for advanced breast cancer.

Ariflo is a new asthma drug which blocks an enzyme involved in airway inflammation and is in phase II trials. Also in phase II trial is an antibiotic for respiratory tract infections.

In preliminary trials, tranilast, a treatment to prevent coronary arteries narrowing after surgery to widen them, has been associated with a reduction of narrowing of up to 67 per cent.

The company also told analysts that its productivity in research and development has improved substantially. "SB's stated goal has been to shorten the time required to take a compound from discovery to regulatory submission to 2,000 days on average by the year 2000, down from 3,600 days in 1991" said David U'Pritchard, chairman, research and development.

SFO examines Azlan accounts

By Susanna Voyle

The Serious Fraud Office is investigating suspected offences of false accounting at Azlan, the computer products distributor.

The probe relates to the suspension of Azlan's shares in June last year. The SFO said yesterday it was working with the fraud squad of North Yorkshire Police, in whose area Azlan has its main warehouse. The investigation, understood to be focused on stock movements, is looking at the financial year ending April 5 1997.

Azlan, based in Wokingham, Berkshire, has shaken up its management and launched a rehabilitation programme. Yesterday it said the new management was helping the SFO with its inquiries.

Azlan shares were suspended at 555p ($3.34) last year after accountants were called in to investigate "unresolved accounting issues". The shares – floated at 230p in 1993 – relisted at 37p. They fell 7½p to 50p yesterday.

Peter Bertram, Azlan's finance director who joined the group last spring, replacing Adrian Lamb, said he would be meeting the SFO in the next couple of days. "The company has already had its own forensic review into what went on, so that gives them a good start," Mr Bertram said. "This is a historic investigation into what happened over a year ago. As a company we are now moving forwards."

The group's problems first came to light in a failed rights issue last June – launched for the purchase of Akam, its training division. SBC Warburg, its broker, suffered a paper loss of more than £1.1m after the rights issue, unveiled while the shares were at 720p.

Clear lobbies against bid for More

By Andrew Edgecliffe-Johnson

Clear Channel Communications yesterday began lobbying against Decaux's proposed £475m ($793m) takeover of More, Clear Channel's UK billboard and bus-shelter advertising rival. Last month Decaux, the French group, trumped Clear Channel's £446m agreed offer for More Group.

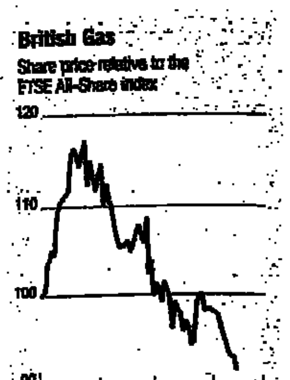
Lobbyists for Clear Channel – the US radio, television and advertising group - have written to about 30 MPs arguing that a Decaux takeover would leave local authorities facing a virtual monopoly supplier.

The letters, which appear to confirm that Clear Channel has not given up its pursuit of More, also refer to the 1992 conviction of Jean-Claude Decaux, founder of Decaux's parent company.

The OFT will make its recommendations on April 30.

COMMENT

BG



Has BG lost its place in the sun? The company stormed to the top of the FTSE 100 league table last year, but in the past three months its shares have underperformed by 19 per cent. Profit taking has no doubt played a part in this, as has this quarter's mild weather, despite the freak storms that lashed the country over the week-end. The fall in the oil price has also dented confidence, although BG's exposure to oil production is relatively small. The market also seems to be taking a dim view of the next item of news: the inland revenue's review on oil taxation, due later this month. Whether the government bumps up corporation tax on upstream activities or widens the net of the petrol tax to include newer fields, BG will be hit. Estimates of how it will affect the asset base of BG's exploration and production arm vary, but it seems unlikely it will justify more than 10p off BG's shares.

Yet they are now trading at a near 10 per cent discount to a "sum of the parts" valuation, whereas many utilities trade at a premium. Throw in the hope of a further buy-back, and they look even lower. The company may feel coy at handing another £1bn or more to shareholders so soon after last year's bumper buy-back, so it may choose to wait until next year before making its move. This may leave the shares in limbo. But if they continue to drift downwards, say to the 250p mark, they will look cheap indeed.

Allied Domecq

Renewed speculation of bidders circling parts of Allied Domecq will do its recently buoyant share price no harm at all. But even if financially sound offers materialised, they would need to be higher than the rumoured £3bn for the retail arm and £4bn for spirits. Allied's current market value is £6.6bn and it has about £1bn net debt. Bidders would need not only to take on a chunk of the borrowings but also to offer enough to cover tax and advisory fees.

While Allied acknowledges there is much spirits industry chat about alliances, it insists that none of this has amounted to a serious approach. An offer for either part of its empire looks to be just as much a bird in the bush as a spirits joint venture with the likes of Seagram or Pernod Ricard.

Telewest may delay offer for Gen Cable

By Cathy Newman

Telewest Communications, the UK's second biggest cable company, is expected to delay making a formal offer for General Cable, the fifth largest, so as to finalise details.

Telewest announced at the end of last month that it was in advanced talks to buy General Cable for £666m ($1.1bn), and indicated it was likely to announce a formal intention to bid at the latest by today.

Générale des Eaux of France, General Cable's largest shareholder, agreed to sell its 40 per cent stake if the offer was made before April 15, or if a later date was agreed. Telewest is now thought likely to extend the deadline because of the complexities of the deal.

Telewest's deal would top last month's £550m offer from NTL, the UK's third biggest cable group. Separately, NTL and Telewest are still officially in merger talks with each other.

Telewest is also in the process of exercising pre-emptive rights over two cable franchises controlled by Comcast, the cable operator which NTL has bid for.

If the Comcast and General Cable deals went ahead Telewest would overtake Cable & Wireless Communications as the largest UK cable operator.

Croda in £28m paint disposal to Ameron

By Roger Taylor

Croda International, the chemicals group, has sold its industrial paints business for £28m ($47m) to Ameron International of the US.

The disposal is the latest move in its strategy to focus on oleochemicals – plant and animal fats used in personal care products and cosmetics. The shares rose 3p to 415p.

The industrial paints business has operations in the UK, Australia and New Zealand and made operating profits of £2.9m on sales of £52.2m in 1997. Los Angeles-based Ameron is acquiring assets worth £27m, and Croda is keeping a further £4m of assets relating to the business which it expects to realise this year.

Croda is now left with only one remaining paints operation – its joint venture with Herberts, part of Hoechst of Germany, which is based in Australia and makes auto-refinish paints. Keith Hopkins, chief executive of Croda, said the company was in discussions with Herberts about selling its stake. Analysts expect the sale to raise about £5m.

Croda is also planning to sell its small Dutch soaps business as the final step in the group's restructuring.

Mr Hopkins said that the disposals would reduce gearing to about 50 per cent.

PROFILE SULIMAN OLAYAN, OLAYAN GROUP

A man with no money of his own

Roula Khalaf meets an Arab investment guru driven by intellectual challenge

Suliman Olayan likes to crack jokes. But when the Saudi financier says he has no money, he means it. Although he has a personal fortune of more than $3bn (£1.7bn), he keeps his wealth in his company and adopts a spartan lifestyle.

His only need is to prove he still has his investment touch. "I look at money as I looked at my grades in school, as a measure of the accuracy of my decisions," says Mr Olayan.

His investment choices earn top marks in the financial circles of London and New York. Defying the stereotypes of rich Arab businessmen, Mr Olayan has turned his individual empire into a sophisticated institutional investor welcomed by blue-chip companies.

His name rarely appears in the press – he likes it that way. But when it does, it is usually in connection with a stake his Olayan Group has acquired in names such as J.P. Morgan, Transamerica, National Grid and Occidental Petroleum.

Mr Olayan accumulated bank shares in the US in the early 1990s when the market was down on the sector; in more recent years he has been buying in Europe, where he expects a similar wave of restructuring and consolidation. His passion for bank stocks is driven by the simplicity of the underlying business. "Banks have money, they lend it and get it back and then lend it again," he says.

His most recent coup is the result of last year's build-up of a 5 per cent stake in Credit Suisse, Switzerland's second biggest bank. Mr Olayan had been a long-time customer and in 1988 he helped provide bridge financing to facilitate the merger of First Boston with Credit Suisse First Boston. The share price is up nearly 90 per cent since September.

"It's obscene, the way we made money on Credit Suisse," says Mr Olayan with a grin. Of his investment decisions generally, he says: "You cannot totally discount luck. But I just have the feeling of investing."

Driven by an intellectual challenge to prove that an Arab businessman can be as savvy and professional as any investment guru, Mr Olayan is a long-term investor who buys minority stakes in undervalued businesses where he admires the management. Once he sets eyes on a company, he becomes passionate about it – and willing to gamble. He often keeps buying, leveraging his position through creative financial engineering to maximise returns.

He speaks admiringly of Warren Buffett, whom he refers to as the "godfather of investing"; however, Mr Olayan hastens to add that his own company's return on investment has, during

'It is obscene, the way we made money on Credit Suisse'

the past 13 years, been marginally better than Mr Buffett's Berkshire Hathaway. It is hard for outsiders to judge. Many of his investments have not been shining successes and some, such as his stake in Chase Manhattan in the late 1980s, seemed a disaster. But Mr Olayan can afford to wait; he stuck with Chase, as he does with many other stocks, and the price has since picked up.

There have been bad deals in his Saudi businesses. One of Mr Olayan's companies introduced the Hertz car rental franchise to Saudi Arabia in the early 1990s, but the market was already mature. After much disappointment, the company is taking steps to get rid of the business.

Mr Olayan's rise is not the classic tale of Saudi riches, where royal connections paved the way to extravagant wealth. The son of a well-off spice merchant, he was born in 1920 in the north-western province of Qassim, now better known as the home of Islamic fundamentalists. It was not until 12 years later that Abdel Aziz ibn Rahman Al Saud combined his conquests and declared himself king of Saudi Arabia.

When Mr Olayan was growing up, there were no high schools in the Kingdom, so he was sent to study in neighbouring Bahrain.

Back in Saudi Arabia he worked for Aramco, the Arabian-American oil company, as a truck dispatcher before being given responsibility to run the storeroom. He then worked as a translator. "The storeroom was my university," he says. "I had 850,000 items and I could remember each and every one of them and where they were located."

An excellent memory and insatiable curiosity are cited by associates as some of his biggest assets. His penchant for risk-taking was evident at an early age, when he mortgaged his house to start his own contracting business in 1947.

Soon after his start in business, Mr Olayan won a subcontract from Bechtel as part of the construction of the Trans-Arabian Pipeline, which linked the oil fields in eastern Saudi Arabia to a terminal in south Lebanon.

He maintained the contact with Bechtel, eventually setting up a joint venture with the US company. It is one of his 40 businesses in the Kingdom, including a large food and distribution company with licences from General Foods, Kimberly-Clark, Pillsbury and Burger King.

Olayan: 'I look at money as I looked at my grades in school'

Becoming a financier was born out of necessity. His contracting company was importing everything from the US and there were no banks in Saudi Arabia to extend credit. US banks would not accept his Saudi assets as security. So with advice from Citicorp, he started buying blue-chip shares on the US market.

At 78, Mr Olayan still shuttles the world on the company jet, spending half his time in the Saudi capital and splitting the rest between London and New York. Exercising for an hour every morning – 200 sit-ups, he proudly declares – he remains in full control of his business empire and calls all the important shots.

Keeping with his philosophy that the money is there to invest, he watches spending closely. Employees are not given share options and even his shareholders – his American wife and four children – are paid low dividends.

Mr Olayan sees no reason to share his wealth, though he donates money for education and health. In spite of his insistence on the need for wealthy Arabs to work and behave like institutions rather than individuals, he is only now thinking of taking some of the Saudi companies public.

He has also moved against the Saudi social tide, giving his three daughters, like their brother, executive positions in the Olayan Group. Lubna, the youngest daughter, runs part of the Saudi business from Riyadh, and is seen as a possible successor.

When he does step down, the reins will not necessarily pass to a family member, he says, although he has made legal arrangements to ensure continuity. His children cannot liquidate the business or give up the investment portfolio for 25 years after his death.

"I made it on my own and as a commoner," says Mr Olayan. "I am not going to leave behind a mess."

JOHN KAY

Shame game pays off

Arguments against external assessment should be dismissed as self-serving cant

In the past 10 years, research assessment has been introduced into British universities. Academics have to report on the quantity and quality of their publications, and the quality of each department is graded and published.

Many of my colleagues bitterly resent these innovations. They argue that the need to fill in forms to respond to these inquiries distracts them from their real work of teaching and research. They claim that the assessment of research quality is inevitably subjective, and can only really be done by the researcher. And they say that since they are already doing as good a job as could possibly be done, the whole activity is pointless.

There is a small amount of *truth in these criticisms.* It is certainly true that the research assessment exercise is bureaucratic and emphasises those aspects of research that can be measured – like the number of publications – at the expense of those that are less quantifiable – whether the research made any significant contribution to the sum of human knowledge. It is also true that it is often difficult to judge the significance of research.

But you have heard these arguments before. You heard them from monopoly utilities, who claimed that any proposal to introduce competition into telecommunications or aviation or gas supply was an insulting suggestion that they were not doing a good job. You heard them from schools, which claimed that league tables comparing their performance diminished the professional status of education. You heard them from doctors and nurses, who said that time spent filling in forms would be better spent with their patients. You heard them from financial services companies which claimed that regulation was a bureaucratic interference that got in the way of selling pensions to as many people as possible.

And you hear it today from business people who complain about the burgeoning industry of corporate governance. The need to provide information to people outside the business consumes time and resources that would be better spent beating international competition.

And yet the introduction of greater external accountability did seem to affect the behaviour of my university colleagues. Star *researchers are now prized,* and poached; duds are more rigorously reviewed; departments set their plans by reference to research ratings.

Indeed, it was necessary for research quality assessment to be followed by teaching quality assessment, otherwise the emphasis on research within universities might have been even more excessive than before. And publishing league tables also made schools and hospitals try harder, independent procedures made the police more careful about complaints, regulatory interventions led financial service companies to tighten up on their compliance procedures.

Certainly I doubt that either senior managers or academics are the only exceptions to the general rule that effective external accountability for your performance tends to improve it.

And one of the interesting lessons from these assessments is that they work even if no action follows from them – as with the school league tables. Shame or kudos is itself an effective spur. Still, it is better if action does follow, and the university system, which redistributes research funds to follow ratings, serves well in this regard.

So arguments that say we are too busy and too admirable to be externally assessed should be dismissed for the self-serving cant they are. But it is right to be wary of box-ticking – the kind of assessment encouraged by standards such as *ISO* 7000, essentially related to process rather than substance. It assesses lectures by reference to whether they defined and achieved their objectives, not on whether the objectives were of any relevance. But even so, do not dismiss box-ticking entirely. If the lecture had *no objectives,* it is unlikely that any objectives were achieved.

But most of all, never believe that people will objectively assess themselves. The documents that we write to assess our own courses are as vacuous as the self-congratulatory platitudes that fill the corporation's annual report.

The greatest weakness of corporate accountability is that both groups of monitors – auditors and non-executive directors – are effectively appointed by those they monitor. Still, that is because corporate accountability has been going longest and managers have learned how to capture the assessment system. I expect that dons, teachers and doctors will learn to do the same.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

INFORMATION TECHNOLOGY BRIEFS

Picture software improves speed, quality and price

A photographic image traditionally passes through several time-consuming and expensive stages before it is ready to be used in an advertising campaign.

Typically this involves scanning the image, retouching and outputting a series of transparencies before the art director and client are satisfied, and finally producing a four-colour film ready for publication.

Advertising agencies are under pressure to reduce costs while delivering better quality, more quickly and with greater efficiency.

Now Van Ginneken & Mostaard, an Amsterdam pre-press company, and Leagas Delaney, a London advertising agency whose clients include Adidas, Patek Philippe and Porsche, believe they have developed a software package that cuts costs by as much as 30 per cent and improves quality.

The system, called ICISS, has been developed by Van Ginneken's subsidiary, Visu Technologies. It runs on standard hardware, and achieves its savings by eliminating many of the processes that involve duplication of effort.

Leagas Delaney claims it is usually possible to cut the number of proofs needed during the retouching process from five or more to just one or two. Not only does that save money – each transparency can cost hundreds of pounds to produce – but it also cuts the time taken to produce a final film.

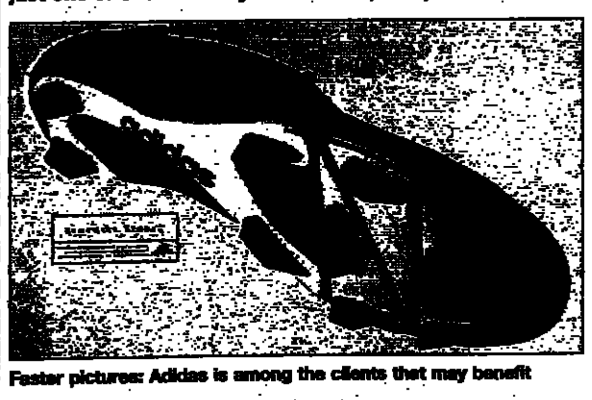
In the hands of a skilled user, the software is smart enough to adapt an image to the characteristics of the paper used by the publication, then automate the conversion of an image from the scanned RGB (Red, Green, Blue) format to the CMYK (Cyan, Magenta, Yellow and Black) format required to create the output film.

"Conventional wisdom says that out of speed, quality and price you can pick only two out of three," says Jim Hubbard, creative services director at Leagas Delaney. "We decided to break that rule."

After a year working with Van Ginneken, Mr Hubbard says his agency can deliver significantly improved colour quality and consistency.

Van Ginneken & Mostaard and Leagas Delaney are now working with British Telecommunications on a pilot high-speed, wide area network linking the advertising and printing industries. This would enable images processed using the technology to be distributed throughout the world, further cutting costs and reducing process times.

Paul Taylor



Faster pictures: Adidas is among the clients that may benefit

IN BRIEF

Time for the mouse to go belly-up

The first graphical user interface and mouse personal computer pointing device were developed at Xerox Parc in Palo Alto in the late 1970s.

Since then, some mice have developed extra buttons, others have sprouted wheels to help scroll through web pages and some have somersaulted on to their backs to become trackballs.

One drawback has stayed with them – dust tends to build up on the mechanics, leading to reliability problems. Now Logitech, the Swiss-based leader in PC control devices, believes it has developed the ultimate pointing device. Its TrackMan Marble+ is described as "a wheel-enhanced, thumb-operated trackball that offers high precision and reliability, as well as virtually maintenance-free operation".

Unlike a traditional mechanical trackball, in the Marble a laser-like beam illuminates a random pattern of dots printed on the ball, while an optical sensor tracks the motion. Logitech's advanced optics and neural network logic detect movement in a manner similar to that of the human eye and transmit information to the computer.This virtually eliminates maintenance while providing a highly accurate pointing device.

Logitech: www.logitech.com

Ready for school

Classroom PCs tend to get pretty rough treatment, particularly if they are portables. Semerc, a UK-based subsidiary of Granada Learning, has addressed the problem with the Panasonic CF-25 MKIII Ruggedised Notebook PC, a full-feature multimedia computer designed for special needs and mainstream students of all ages.

The computer, powered by an Intel 166Mhz Pentium processor, is protected by its rugged case which has passed military tests to withstand multiple drops from 1m on to concrete at any angle while open and is immune to the usual problems caused by water, dust, shock and vibration.

The machine owes much of its robustness to a lightweight magnesium alloy case. The 1.44Gb hard drive is mounted in shock-absorbing gel and the 10.4in or 12.1in protection-coated screen has internal dampers and rubber seals.

The speaker is water resistant, all ports have rubber seals and internal connections are flexible. The CF-25 MKIII costs £2,299 ($3,840) or £3,299 in the UK, depending on configuration.

margaret@semerc.demon.co.uk

Winning hands down

Psion Computer's Series 5 pocket PC continues to win awards despite increasing competition from rivals such as 3Com's Palm PC and the increasing number of Windows CE machines.

For many corporate users however, handheld machines must be able to exchange data easily with databases such as Lotus Notes *Database before they can be* considered as alternatives to bulky notebook PCs.

So Psion and Lotus have announced a plug-in option for the latest of the Series 5 docking software, PsiWin 2.1. The plug-in allows Lotus Notes 4.5/4.6 users to synchronise their calendar and address book with the Series 5's Agenda and Data applications. A future version of the software, using technology from Time Information Services, will include full Lotus Notes Database synchronisation.

"This solution extends the benefits of Lotus Notes to the Series 5, so mobile users are no longer tethered to their desks," says Daniel Doulton, product marketing manager at Psion.

Psion: www.psion.co.uk

Gilts buck trend with late rally

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

Government markets drifted lower yesterday, with the US CPI data failing to provide a post-Easter pick-up, in spite of the fact that the numbers looked favourable against most expectations.

Analysts said there were some concerns in the market, following speculation that the Bank of Japan had sold $12bn of US Treasuries on Monday. This had fed through into the US dollar, as well as the bond markets.

David Brown, chief European economist at Bear Stearns, said: "Now that the Bank of Japan has the market on the run, even the most committed bond market bull will fear that the BoJ will not stop pounding the market until the dollar has been counted out."

GERMAN BUNDS traded in a narrow range, gaining *only a marginal fillip in the* afternoon from the release of the US data.

The June contract remained stuck in an 18-point range, and settled 0.11 lower at 107.71, with volumes low. Analysts said there were increasing concerns about the immediate outlook for interest rates among the core euro zone, which has fed through into the recent recovery in the D-Mark.

David Keeble, European bond strategist at Credit Suisse First Boston, said: "There were strong Dutch industrial production numbers yesterday, which along with the CPI numbers on Friday, points to a nasty picture for interest rates.

"I think that the Dutch will bring pressure to bear on the Germans to raise interest rates. I don't like the front end of the European yield curve."

Bunds marginally underperformed most of the European markets. ITALIAN BTPs settled 0.16 lower at 119.51, *and in the cash mar*ket the yield against bunds narrowed by 1 basis point to 25, although there was little local news to drive the market.

In Spain, the announcement of a regular auction of 30-year government bonds, to build up a liquid benchmark for BONO strips, provided support at the long end of the yield curve. The 10-year future settled 0.07 lower at 109.31.

FRENCH OATs drifted lower, but settled 2 points off their trading low, at 104.15. Activity was limited, and was not helped by a delayed opening due to teething problems with the new electronic trading system.

UK GILTS were the odd ones out, with the market rallying strongly towards the close. The June contract settled $\frac{1}{16}$ higher at 109$\frac{23}{32}$, having spent the majority of the day in negative territory.

Andrew Roberts, gilts strategist at UBS Securities, said: "There is a rumour that the British Retail Con*sortium survey will come in* quite weak. That gave a shot in the arm for the market, in the last 30 minutes."

Nonetheless, turnover was subdued, with just 33,000 contracts traded on Liffe. The yield spread against bunds narrowed by another 3 basis points to 96, taking it to its narrowest level since last October.

Mr Roberts said there was scope for a further rally. "The hawks have finally come round to the view that there will be no more interest rate hikes, but the market is still too negative. I think we could have an interest rate cut in the third quarter".

US TREASURIES rebounded moderately after Monday's sell-off, as buying picked up from overseas markets and new figures on the consumer price index and retail sales were released.

In a quiet market, the benchmark 30-year bond gained ¼ by early afternoon to 102$\frac{23}{32}$, yielding 5.911 per cent.

The two-year note was unchanged at 99¾, yielding 5.567 per cent, while the 10-year note rose $\frac{3}{32}$ to 99$\frac{1}{32}$, yielding 5.628 per cent.

Inflation continued to appear well-contained in the latest prices report. The CPI was unchanged for March, and excluding the food and energy sectors prices it rose 0.1 per cent.

In a separate report, retail sales fell 0.1 per cent in March after rising 0.7 per cent in February.

Traders also awaited announcements from the forthcoming G7 meeting, as to whether attempts to weaken the value of the dollar will change.

"As long as the intervention situation remains, with intervention by the Bank of Japan, the Treasury market will absorb the sales. If there is concerted intervention to weaken the dollar, that could be a longer-term problem for the Treasury market," said Richard Gilhooly, international bond strategist *at Paribas Capital Markets.*

Two-part offering by Greek bank

By Vincent Boland

General Hellenic Bank, a medium-sized Greek bank, yesterday launched the first of a two-part share offering that will see its majority owner, the Greek army pension fund, sell nearly half its stake.

The pension fund is selling 33 per cent of GHB in a private placing with Greek and international investors, reducing its stake in the bank to 35.5 per cent. Interamerican Group, the largest privately owned Greek insurance company, is to take a 10 per cent stake in GHB via the placing.

The shares included in the placing are due to be priced and allocated by April 27, after which GHB plans to raise Dr23bn in a 1-for-1 *rights issue to finance* its investment programme, improve capital adequacy ratios, and expand its relationship with Interamerican.

National Bank of Greece is acting as global co-ordinator of the issue, with Nikko Europe and NBG International as joint lead managers. They said yesterday that both Interamerican and the army pension fund would take up their entitlement in the rights issue. The rights are to be offered at Dr4,800 each, against a price of Dr12,748 yesterday.

GHB, which ranks seventh among Greek banks in asset terms, is listed in Athens. When both transactions have been completed, the stake in GHB owned directly and indirectly by the Greek state will fall from 74.4 per cent to 44.4 per cent, and the free float in its shares will rise to more than 45 per cent from about 22 per cent currently.

FRANCE EXCHANGE WORTH Ecu17bn

Bankers see success for euro-fungibles

By Samer Iskandar

The French treasury's offer to exchange Ecu17bn of illiquid Ecu-denominated bonds *for new euro-fungible* benchmarks is set to become the most successful of its kind, according to bankers.

Although the offer is still running until tonight for retail investors, the response from institutions was described as "overwhelmingly positive", with an average acceptance rate of more than 60 per cent, according to Morgan Stanley Dean Witter, joint centralising agent with Paribas. This compares with an average take-up of between 10 per cent and 50 per cent on previous offers. Italy was a pioneer of such transactions a few years ago, when it offered to buy back most of its dollar-denominated bonds in exchange for two large tranches of new five and 10-year securities.

The French offer, announced last month, aims to increase the efficiency of the debt market ahead of January's introduction of the European single currency – the euro. In recent years, the treasury has managed its debt actively, establish French OATs and BTANs as the reference yield curve for euro-denominated government bonds.

The success of the transaction was partly due to pricing, which offered investors a yield pick-up of 1-3 basis points. Similar swaps have often required that investors give up yield in exchange for higher liquidity.

Six bonds maturing between April 2000 and April 2003 will be exchanged into two issues maturing in July 2000 and July 2002. Three issues of longer-term bonds, maturing between 2003 and 2006, will be exchanged into two issues maturing in 2003 and 2008. The older bonds paid coupons of between 6 per cent and 10 per cent. The new ones will pay coupons of between 4 per cent and 5.25 per cent.

Liquidity in the new bonds will be doubly enhanced. First, because their coupons and prices will be in line with current interest rates. As a result, the securities will trade closer to their par values and listed futures contracts will allow more efficient hedging of positions. Second, because each of the new issues will be merged with an existing bond in French francs, which will be redenominated in euros next year.

The larger amounts should lead to narrower spreads between bid prices and offered prices. Stripping – separating the coupons from the principal repayment to trade them as distinct securities – will also impact less on liquidity.

Not surprisingly, investors were particularly eager to exchange the bonds carrying the highest coupons, which were most out of line with market conditions. Holders of the 10 per cent OAT maturing in 2001 exchanged almost 85 per cent of their holdings. Conversely, only 38 per cent of the 6 per cent OAT of 2004 were swapped.

CDC Marchés and Deutsche Bank were co-managers of the group of 18 banks.

Issuers take breather to ease digestion

INTERNATIONAL BONDS

By Edward Luce

Lead managers blamed the aftermath of the Easter holiday and general market indigestion after heavy supply in the first quarter for what was *"probably the quietest* business day of the year" yesterday.

"At the start of every week we have a conference call on forthcoming issues, secondary market movements and general market rumours," said one lead manager. "Today's was the shortest conference call I can remember."

Few, however, expected the market to come to life in the next few days. "Most investment banks are sitting on a big inventory of unsold paper and are not in a hurry to bring out any more expensive deals," said one bank official.

Paul Abberley, director of asset management at Lom*bard Odier, a Swiss private* bank, said general market conditions were excellent in the medium-term. But investors were beginning to look again at "spread plays" given the stubbornly low yields on offer in the investment grade market.

"There is growing appetite for emerging market paper especially given the success of the Korea deal [$4bn issue] last week," said Mr Abberley. "There are not a lot of deals in the immediate pipeline but we expect a steady supply in the near future."

Brian Mooyaart, head of a bond pricing consultancy, said that at the top end of the investment grade market, spreads on five-year bonds had widened by about 3 basis points over the past three weeks. Spreads on 10-year debt had widened by about 5 basis points.

"Most, if not all, of the funding gap left over from the last quarter of 1997 has been filled," said Mr Mooyaart.

"We have seen an extraordinary volume of issuance in the first quarter of 1998 and it takes some time for the market to digest this level of supply."

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
PNC Bank(b)‡	250	(b1)	99.905	Mar 2003	0.175	-	Deutsche Bank
IBRD*	80	5.20(c)	100.00	Aug 2001	1.11875	-	IBJ Intl/Wako Intl
Banco BBM Investimentos*	50	9.50#	99.7672	Aug 1999	(d)	-	Credit Lyonnais
SWISS FRANCS							
DSL Bank	150	2.50	101.15	May 2003	2.00	-	CSFB
SBC Jersey Branch(a)	100	7.50	100.10	May 2001	1.50	-	SBC Warburg Dillon Read

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) SFr300m launched 03/4/98 increased to SFr400m. b) Fungible with $250m. Plus 33 days accrued. b1) 3-mth Libor +6.25bp. c) Quarterly, long last. d) To be confirmed.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 14	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.9248	4.91	+0.03	+0.06	-0.09	-1.68
	10/07	10.000	131.7147	5.60	+0.07	+0.11	-0.17	-2.42
Austria	09/99	7.000	103.8300	4.16	+0.03	+0.03	+0.13	+0.14
	07/07	5.625	104.9800	4.94	+0.01	-	-0.01	-1.03
Belgium	01/00	4.000	99.7900	4.12	-	-0.03	+0.10	+0.36
	03/07	6.250	109.2400	4.95	+0.02	+0.01	-0.01	-1.05
Canada	09/99	4.750	99.7500	4.93	+0.05	+0.12	-0.03	-0.18
	06/07	7.250	114.2000	5.25	-0.01	+0.07	-0.13	-1.53
Denmark	12/99	6.000	102.4300	4.43	+0.04	+0.03	+0.26	+0.26
	11/07	7.000	114.2400	5.08	+0.02	+0.02	-0.06	-1.58
Finland	01/99	11.000	105.1743	3.75	-	+0.01	+0.18	-0.05
	04/06	7.250	115.6100	4.85	+0.02	+0.04	-0.03	-1.55
France	01/00	4.000	99.7900	4.12	+0.03	+0.01	+0.20	+0.41
	10/04	6.750	111.5020	4.66	+0.02	-	+0.05	-0.70
	10/07	5.500	104.6100	4.88	+0.01	-	-0.02	-0.92
	10/25	6.000	108.4500	5.40	+0.01	-	-0.05	-1.27
Germany	09/99	4.000	100.0000	3.99	+0.02	-0.01	+0.19	+0.32
	11/04	7.500	115.5100	4.69	+0.01	-0.01	+0.02	-0.79
	07/07	6.000	108.2800	4.86	+0.01	-	-0.05	-1.00
	07/27	6.500	115.9700	5.40	+0.01	-	-0.04	-1.33
Ireland	04/99	6.250	101.3000	4.82	+0.01	-0.02	+0.20	-1.08
	08/06	8.000	119.8400	5.02	+0.01	+0.03	-0.06	-1.82
Italy	05/00	6.000	102.8900	4.52	+0.02	-0.01	+0.04	-2.29
	05/02	6.250	105.6100	4.72	+0.01	-	+0.03	-2.43
	07/07	6.750	112.3900	5.05	+0.02	+0.01	-0.08	-2.58
	11/26	7.250	124.3500	5.54	+0.01	+0.01	-0.11	-2.45
Japan	03/00	6.400	111.1100	0.55	-0.01	-0.08	-0.04	-0.20
	12/02	4.800	116.5900	1.14	-0.02	-0.10	-0.04	-0.49
	04/05	3.000	109.5800	1.62	-0.02	-0.09	+0.01	-0.56
	09/17	3.000	107.8000	2.49	-0.02	-0.06	+0.05	-0.42
Netherlands	11/99	7.500	105.0300	4.12	+0.02	-0.01	-0.20	+0.26
	02/07	5.750	106.3300	4.85	+0.02	-	-0.01	-0.53
New Zealand	02/00	6.500	97.5928	7.95	+0.02	+0.01	+0.49	-0.12
	11/06	8.000	106.6255	6.94	+0.02	+0.03	+0.13	-1.30
Norway	01/99	9.000	103.5000	4.35	+0.03	-0.02	-0.04	+0.25
	01/07	6.750	110.3000	5.25	+0.04	+0.03	+0.02	-0.99
Portugal	03/99	8.500	103.8031	4.18	-0.03	+0.05	+0.17	-1.51
	02/07	6.625	111.5327	4.98	-0.02	+0.01	-0.04	-1.79
Spain	07/99	7.400	103.9155	4.36	-	+0.05	+0.19	-1.27
	03/07	7.350	116.7043	4.99	-0.03	+0.01	-0.05	-1.88
Sweden	01/99	11.000	104.5700	4.66	-	-0.02	-	-0.13
	08/07	8.000	120.6300	5.15	-0.01	-0.01	-0.16	-2.00
Switzerland	03/00	5.000	105.2500	1.84	-0.06	-0.06	+0.36	+0.03
	06/07	4.500	112.3300	2.54	-0.01	-	+0.29	-0.34
UK	01/99	6.000	99.7701	6.56	-0.02	-0.02	-0.17	-0.34
	11/04	6.750	104.3719	5.90	+0.01	-0.02	-0.23	-1.66
	12/07	7.250	111.0625	5.74	-0.01	-0.04	-0.23	-1.90
	06/21	8.000	129.8438	5.67	-	-0.02	-0.22	-2.10
US	10/99	5.625	100.0300	5.60	-	+0.11	+0.10	-0.92
	11/04	7.875	111.9450	5.67	-0.05	+0.09	+0.04	-1.19
	08/07	6.125	102.9390	5.71	-0.02	+0.11	+0.06	-1.27
	08/27	6.375	106.1330	5.93	-0.03	+0.07	+0.02	-1.24
ECU	01/00	4.000	99.7300	4.15	-	+0.01	-0.06	-0.17
	04/07	5.500	104.0500	4.93	-	+0.01	-0.04	-1.34

London closing. *New York closing. Source: Interactive Data/FT Information. Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Apr 14	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.60	+0.74	-0.04	New Zealand	6.94	+2.08	+1.30
Austria	4.94	+0.08	-0.70	Norway	5.25	+0.39	-0.39
Belgium	4.95	+0.09	-0.69	Portugal	4.98	+0.12	-0.66
Canada	5.25	+0.39	-0.39	Spain	4.99	+0.13	-0.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.06	104.15	-0.07	104.23	104.05	6,249	112,669
Sep	103.68	103.71	-0.07	103.68	103.68	2	171

LONG TERM FRENCH BOND OPTIONS (MATIF); Germany: NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100%; BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%; NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%; NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100%; Italy: NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE) Lira 200m 100ths of 100%; ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%; Spain: NOTIONAL SPANISH BOND FUTURES (MEFF); UK: NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%; NOTIONAL UK GILT FUTURES (LIFFE) £50,000 32nds of 100%; LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%; US: US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%; Japan: NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

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Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.66	103.68	-0.06	103.76	103.66	109	6,260

US CORPORATE BONDS

Apr 14	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.0463	6.14	+0.09	+0.11	+0.51
NY Tel	08/25	7.00	A+	99.0681	7.07	+0.05	+0.04	+1.14
CWE	05/08	8.00	BBB	110.5021	6.55	+0.07	+0.07	+0.90
FINANCIALS								
GECC	05/07	8.75	AAA	117.3351	6.22	+0.08	+0.08	+0.57
Banc One	08/02	7.25	A+	103.6890	6.25	+0.09	+0.11	+0.62
US West	01/07	7.30	BBB+	105.1307	6.51	+0.07	+0.09	+0.86
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0290	6.21	+0.06	+0.02	+1.07
Wal Mart	05/02	6.75	AA	102.2329	6.12	+0.10	+0.09	+0.49
Dayton Hud	06/21	9.70	BBB+	132.1201	6.90	+0.06	-	+0.97
AGENCIES								
FHLMC	04/07	7.14	N/A	107.8923	5.99	+0.08	+0.08	+0.34
SLMA	03/00	7.50	N/A	103.0901	5.75	+0.09	+0.07	+0.19
FNMA	02/18	8.95	N/A	130.7731	6.22	+0.06	+0.05	+0.29
FFCB	08/06	8.95	N/A	119.3140	5.92	+0.08	+0.02	+0.27
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.8750	0.00	-	-	-
AK Stl	12/01	9.13	BB-	107.1250	0.00	-	-	-
Pacalta	06/04	10.75	B-	102.7500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.57
Prime rate	8½	Two month	-	Three year	5.58
Broker loan rate	7¼	Three month	5.14	Five year	5.61
Fed.funds	5½	Six month	5.32	10-year	5.63
Fed.funds at intervention	-	One year	5.38	30-year	5.91

INTERNATIONAL BONDS

Apr 14	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
UK EURO DM								
EIB	02/07	5.750	AAA	105.9500	4.80	+0.01	-	+0.10
Spain	01/07	5.750	AA	105.4600	4.96	+0.01	-0.01	+0.16
Philip Morris	03/04	5.375	A	101.7900	5.02	+0.02	+0.06	+0.45
Finland FRN	08/02	3.570	AA	100.6489	3.99	+0.02	+0.11	-0.30
EURO FFR								
Austria	01/04	5.500	AAA	104.0200	4.68	+0.01	+0.07	+0.09
Abbey Nat	02/04	6.000	AA	106.0100	4.79	-	+0.06	+0.20
Cred Foncier	02/04	9.125	A	120.5900	4.97	+0.01	+0.02	+0.38
3CIF FRN	12/01	3.625	AA-	99.8456	4.19	+0.02	+0.13	-0.02
EURO LIRA								
EIB	02/07	7.000	AAA	113.2000	5.10	+0.02	-0.06	+0.12
Abbey Nat	02/02	6.800	AA	106.8500	4.80	-	-0.04	+0.18
Walt Disney	06/00	8.625	A	107.6000	4.85	-	-	+0.39
EIB FRN	03/01	5.356	AAA	100.1749	4.39	+0.03	+0.04	-0.13
EURO £								
EIB	12/07	7.625	AAA	111.1927	6.05	-0.02	-0.18	+0.26
Dresdner Bk	12/07	7.750	AA-	108.3985	6.54	-0.02	-0.23	+0.75
British Gas	03/00	7.625	A+	101.3027	6.88	-0.03	-0.18	+0.33
Abbey Nat FRN	02/02	7.713	AA	100.0066	6.02	-0.01	-0.19	-0.16
EURO $								
EIB	04/07	7.250	AAA	108.3200	6.03	+0.01	+0.07	+0.40
ABN Amro	06/07	7.125	AA-	105.1800	6.37	+0.01	+0.06	+0.74
Quebec	01/07	7.000	A+	104.1250	6.38	+0.02	+0.07	+0.75
Citicorp FRN	02/04	5.734	A+	98.9000	5.96	+0.02	+0.17	+0.34
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	120.0549	5.63	+0.01	-0.12	+0.23
Toronto	05/04	8.500	AA+	114.9154	5.55	+0.01	-0.14	+0.15
Bell Canada	07/09	10.625	A+	105.9161	5.53	+0.08	-0.04	+1.02
Deutsche B FRN	09/02	5.875	AAA	101.5240	5.48	+0.05	-0.05	+0.15
EURO YEN								
World Bank	03/02	5.250	AAA	116.3000	1.00	-0.03	-0.01	+0.19
Spain	03/02	5.750	AA	118.1500	1.02	-0.02	-0.05	+0.21
Cred Foncier	08/02	4.750	A	113.5076	1.49	-0.01	-0.09	+0.88
Italy FRN	07/99	0.797	AA	100.2867	0.17	-0.01	-0.14	-0.08

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

	Low coupon yield Apr 14	Apr 9	Yr. ago	Medium coupon yield Apr 14	Apr 9	Yr. ago	High coupon yield Apr 14	Apr 9	Yr. ago
5 yrs	5.85	5.85	7.25	6.04	6.04	7.31	6.05	6.06	7.36

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Yen falls against European currencies

MARKETS REPORT

By Simon Kuper and Richard Adams

The dollar dropped against the D-Mark yesterday, as tame US retail sales and inflation data contributed to the picture of a slowing American economy.

The market has moved towards the view that economic growth in Europe is catching up with that in the US. But the D-Mark's rise against the dollar yesterday was aided by purchases of the German currency against the yen.

The market was in thrall to today's crucial Group of Seven industrialised nations meeting in Washington. The G7 is expected to make a statement backing the yen, after heavy intervention by the Bank of Japan in support of its currency on Thursday and Good Friday. ABN-Amro said the bank may have sold up to $12bn worth of dollars.

Haruhiko Kuroda, international finance chief at Japan's finance ministry, said overnight on Monday that the G7 agreed that yen weakness was excessive. Robert Rubin, US treasury secretary and his country's voice on the dollar, repeated that he backed Japan's intervention.

Mr Rubin said the G7's focus would be the Japanese economy, and Japan's attempts at fiscal stimulus. The meeting would discuss exchange rates, "as always".

But he also said: "On the question do I think a strong dollar is in the long-run interest of the US, I think the answer is absolutely yes. I think it would contribute to lower inflation. I think the US economy has benefited from and will continue to benefit from a strong dollar as a matter of policy."

4CAST, the economic consultancy, summed up his comments as follows: "Strong dollar good, weak yen bad."

Given the weak Japanese economy, investors remained keen to sell yen. They sold it against the D-Mark, sterling and the Swiss franc, because they think there is scant risk of Tokyo intervening on these exchange rates.

The yen firmed Y0.1 against the dollar to close in London at Y129.4. But it dropped Y0.75 against the D-Mark to Y71.76, and fell Y2 against the pound to Y218.1.

The US currency also dropped 1.9 pfgs against the D-Mark to DM1.804, after falling through technical support at DM1.8080/90. The dollar fell through the key SFr1.50 level against the Swiss franc, closing 2.1 centimes down at SFr1.492.

■ Indonesia has quietly dropped plans for a currency board to support the rupiah, amid the financial reforms agreed with the International Monetary Fund.

The Indonesian government announced, as part of its reform package: "Bank Indonesia intends to adjust interest rates as necessary to strengthen the rupiah."

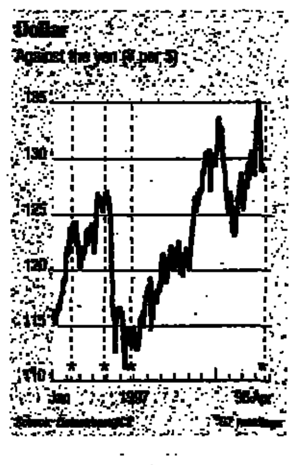
Sjahril Sabirin, Indonesia's central bank governor, made no mention of the currency board proposal, which was said at one point to have enjoyed the support of Steve Hanke, President Suharto's economic advisor and an economics professor at Johns Hopkins University.

Mr Sabirin said the central bank had no plans to raise interest rates for the moment as the rupiah had strengthened. "But if it (the rupiah) were to weaken, we may raise rates," he said. Yesterday the rupiah was stable around Rp7,600 against the dollar.

The new agreement introduces lending facilities from Bank Indonesia with interest rates set high enough to discourage banks from relying on loans from the central bank. Indonesia said the reforms were aimed to raise the rupiah to Rp6,000.

Stanley Fischer, the IMF's deputy chief, said: "That 6,000 [level] is possible with a tight monetary policy, with a steady implementation of the programme, with the beginnings of a return of confidence."

■ Reaction to the G7 communiqué could be delayed. Last April, when the G7 met in Washington, it issued a statement warning against volatile exchange rates which the market all but ignored. In the days afterwards, Japanese and German officials emphasised that the G7 wanted a stronger yen. When the market cottoned on, the yen jumped Y15 against the dollar. No such leap is expected this time, but investors are nervous nonetheless.



■ POUND IN NEW YORK

Apr 14	--Latest--	-- Prev. close --
£ spot	1.6850	1.6880
1 mth	1.6824	1.6855
3 mth	1.6710	1.6604
1 yr	1.6603	1.6430

■ OTHER CURRENCIES

Apr 14	£	$
Czech Rp	56.7036 - 56.7897	33.6820 - 33.7010
Hungary	354.698 - 354.962	210.560 - 210.610
Iran	5056.28 - 5063.50	3000.00 - 3000.00
Kuwait	0.5144 - 0.5149	0.3054 - 0.3055
Peru	4.7503 - 4.7579	2.8200 - 2.8230
Poland	5.7273 - 5.7354	3.4000 - 3.4030
Russia	10.3420 - 10.3492	6.1395 - 6.1405
U.A.E.	6.1867 - 6.1906	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Apr 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.3818	-0.0285	718 - 918	21.4383	21.3528	21.3096	4.1	21.182	3.7	20.6882	3.2	102.5
Belgium	(BFr)	62.7476	-0.0112	971 - 980	62.9130	62.6590	62.5369	4.0	62.1845	3.7	60.7154	3.2	101.7
Denmark	(DKr)	11.5896	-0.0138	848 - 944	11.6276	11.5733	11.6532	3.8	11.4868	3.5	11.2459	3.0	103.8
Finland	(FM)	9.2285	-0.0092	218 - 351	9.2510	9.2170	9.1973	4.1	9.1419	3.8	8.9272	3.3	80.0
France	(FFr)	10.1881	-0.0105	836 - 925	10.2222	10.1712	10.1532	4.1	10.0918	3.8	9.8544	3.3	105.1
Germany	(DM)	3.0392	-0.0039	378 - 406	3.0482	3.0318	3.0289	4.1	3.0105	3.8	2.9396	3.3	102.9
Greece	(Dr)	527.996	-2.709	670 - 322	531.378	527.415	530.215	-5.0	533.957	-4.5	547.31	-3.7	58.2
Ireland	(I£)	1.2053	-0.0023	041 - 064	1.2078	1.2036	1.2042	1.1	1.2014	1.3	1.1799	2.1	93.1
Italy	(L)	3004.27	-2.05	212 - 642	3013.35	2997.59	2999.32	2.0	2987.28	2.3	2923.95	2.7	75.1
Luxembourg	(LFr)	62.7476	-0.0112	971 - 980	62.9130	62.6590	62.5369	4.0	62.1845	3.7	60.7154	3.2	101.7
Netherlands	(Fl)	3.4226	-0.0036	211 - 244	3.4313	3.4183	3.411	4.2	3.38	3.8	3.3095	3.3	101.1
Norway	(NKr)	12.6253	+0.0087	177 - 329	12.6477	12.5887	12.5869	3.6	12.5209	3.3	12.2815	2.7	98.2
Portugal	(Es)	311.421	-0.562	161 - 681	313.325	311.104	310.644	3.0	309.048	3.0	301.981	3.0	91.2
Spain	(Pta)	258.219	+0.119	065 - 372	258.670	257.780	257.586	2.9	256.33	2.9	250.615	2.9	78.3
Sweden	(SKr)	13.1041	-0.0176	921 - 160	13.1383	13.0882	13.0704	3.1	13.0106	2.9	12.7847	2.4	86.5
Switzerland	(SFr)	2.5135	-0.0121	119 - 150	2.5237	2.5069	2.4998	6.5	2.4758	6.0	2.379	5.4	105.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	107.3
Ecu	-	1.5335	-0.0003	326 - 344	1.5373	1.5311	1.5292	3.3	1.5215	3.1	1.4883	2.9	-
SDR†	-	1.247400	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6847	+0.0156	842 - 852	1.6885	1.6658	-	-	-	-	-	-	-
Brazil	(R$)	1.9209	+0.0153	202 - 215	1.9247	1.8982	-	-	-	-	-	-	-
Canada	(C$)	2.4153	+0.0307	142 - 164	2.4224	2.3910	2.4093	2.7	2.4	2.5	2.3625	2.2	82.3
Mexico	(New Peso)	14.3095	+0.1033	014 - 175	14.3472	14.1662	14.469	-13.4	14.7571	-12.5	16.0962	-12.5	-
USA	($)	1.6850	+0.0157	845 - 854	1.6868	1.6660	1.6824	1.9	1.6777	1.7	1.6603	1.5	109.0
Pacific/Middle East/Africa													
Australia	(A$)	2.6022	+0.0547	995 - 049	2.6142	2.5470	2.5965	2.6	2.5858	2.5	2.5398	2.4	84.7
Hong Kong	(HK$)	13.0576	+0.1234	532 - 619	13.0665	12.9098	13.0386	1.7	13.0271	0.9	13.1809	-0.8	-
India	(Rs)	66.7451	+0.6219	062 - 840	66.7950	65.7630	-	-	-	-	-	-	-
Israel	(Shk)	6.2924	+0.0234	783 - 064	6.3079	6.2673	-	-	-	-	-	-	-
Japan	(Y)	218.083	+1.898	958 - 209	218.690	215.710	216.778	7.2	214.358	6.8	204.013	6.5	118.6
Malaysia	(M$)	6.2259	+0.1247	074 - 444	6.2654	6.0614	6.271	-8.7	6.338	-7.2	6.5332	-4.9	-
New Zealand	(NZ$)	3.0666	+0.0445	638 - 694	3.0705	3.0214	3.0726	-2.3	3.0827	-2.1	3.1132	-1.5	96.7
Philippines	(Peso)	64.2368	+1.016	952 - 823	64.6412	64.0888	64.7828	-10.2	65.7698	-9.5	70.5419	-9.8	-
Saudi Arabia	(SR)	6.3194	+0.0588	175 - 213	6.3337	6.2487	6.3123	1.3	6.2985	1.3	6.2583	1.0	-
Singapore	(S$)	2.6833	+0.0292	800 - 865	2.7023	2.6555	2.6821	0.5	2.6783	0.7	2.6639	0.7	-
South Africa	(R)	8.4778	+0.0673	730 - 826	8.5011	8.3959	8.5236	-6.5	8.6002	-5.8	8.9255	-5.3	-
South Korea	(Won)	2355.56	+12.77	156 - 956	2366.43	2333.67	-	-	-	-	-	-	-
Taiwan	(T$)	55.5376	+0.4565	076 - 676	55.5685	55.0170	55.5594	-0.7	55.6017	-0.5	55.5536	0.0	-
Thailand	(Bt)	67.1454	+0.6257	747 - 160	67.5680	66.4300	67.7564	-10.9	68.9497	-10.7	72.7193	-8.3	-

† Rates for Apr 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Apr 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.6898	-0.1364	873 - 924	12.8370	12.6660	12.8038	2.1	12.7603	2.1	12.5952	1.8	102.2
Belgium	(BFr)	37.2408	-0.357	200 - 808	37.6120	37.1300	37.5345	2.0	37.4135	2.0	36.937	1.8	101.6
Denmark	(DKr)	6.8783	-0.073	773 - 793	6.9586	6.8590	6.941	1.8	6.9208	1.8	6.8473	1.5	103.1
Finland	(FM)	5.4770	-0.057	745 - 795	5.5400	5.4642	5.5248	2.0	5.5065	2.0	5.4345	1.8	79.5
[illegible]													
Singapore	(S$)	1.5925	+0.0025	910 - 940	1.6040	1.5900	1.592	-1.5	1.594	-1.0	1.6025	-0.8	-
South Africa	(R)	5.0315	-0.007	300 - 330	5.0405	5.0290	5.0714	-7.8	5.134	-7.6	5.3848	-6.9	-
South Korea	(Won)	1398.00	-5.5	600 - 000	1420.00	1394.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.9610	-0.0365	520 - 700	33.1020	32.8370	32.0475	-1.8	33.145	-1.8	33.4825	-1.5	-
Thailand	(Bt)	39.8500	-	000 - 000	40.5500	38.6500	40.225	-11.3	40.975	-11.3	43.8	-9.9	-

† SDR rate per $ for Apr 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Apr 13: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Apr 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¾	3¹³⁄₁₆	3⅞	3⅞	3⅞	6.00	2.75	-
France	3¾	3¹³⁄₁₆	3⅞	3⅞	3⅞	4.60	-	3.30
Germany	3⁹⁄₁₆	3⁹⁄₁₆	3⅝	3⅝	3¾	4.50	2.50	3.30
Ireland	5⅜	6⅛	6	5⅞	5¾	-	-	6.75
Italy	5¾	5⅛	5¹⁄₁₆	4⅞	4⅝	7.00	5.50	5.63
Netherlands	3½	3⅝	3⅞	3⅞	3⅞	-	2.75	3.30
Switzerland	1⅛	1⅜	1⅝	1⅝	1⅝	-	1.00	-
US	5⅝	5⅝	5⅝	5¾	5¾	-	5.00	-
Japan	⅜	⅝	½	⅝	½	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5⅝	5⅝	5⅝	5⅝	-	-	-
US Dollar CDs	-	5.44	5.44	5.47	5.51	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3¾	3¾	3⅞	3⅞	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Apr 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅞ - 3⅝	3¾ - 3⅝	3⅞ - 3¾	3¹⁵⁄₁₆ - 3⅞	3⅞ - 3⅞	4 - 3⅞
Danish Krone	3⅞ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3⅞	3⅞ - 3⅞	4⅛ - 4
German Mark	3⁹⁄₁₆ - 3¼	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅞ - 3⅝	3⅞ - 3⅝
Dutch Guilder	3⅝ - 3½	3⅝ - 3⅝	3⅝ - 3½	3⅝ - 3¾	3⅞ - 3⅝	3⅞ - 3¾
French Franc	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3¾	4 - 3⅞	4⅛ - 4
Portuguese Esc.	4⅝ - 4⅜	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝
Spanish Peseta	4⅜ - 4⅜	4⅝ - 4⅜	4⅜ - 4⅜	4⅜ - 4⅜	4⅜ - 4⅜	4⅜ - 4⅜
Sterling	7 - 6⅞	7⅛ - 7⅛	7⅜ - 7⅜	7⅜ - 7⅜	7⅜ - 7⅜	7⅛ - 7⅛
Swiss Franc	1 - ⅞	1⅛ - 1	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅝ - 1⅝
Canadian Dollar	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	4⅝ - 4⅝	5⅛ - 4⅞
US Dollar	5⅝ - 5¾	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝
Italian Lira	6 - 5½	5⅝ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛	4⅝ - 4⅝	4⅝ - 4⅝
Japanese Yen	⅝ - ⅜	⅝ - ⅜	⅜ - ⅜	⅜ - ⅜	⅜ - ⅜	⅝ - ⅜
Asian $Sing	3¾ - 3½	4⅝ - 4⅛	4⅝ - 4⅝	5⅛ - 4⅞	5¼ - 5	5¾ - 5½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.240	96.230	-0.010	96.240	96.225	2,111	70,925
Sep	96.075	96.075	-0.015	96.085	96.060	1,187	33,484

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.240	96.250	+0.005	96.265	96.240	42002	402528
Sep	96.100	96.110	+0.005	96.125	96.100	28653	369521
Dec	95.905	95.930	+0.015	95.940	95.905	26561	375690
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.78	95.78	-	95.78	95.78	2	5632

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9525	0.17	0.57	0.69	0.13	0.04	0.04
9550	0.07	0.35	0.46	0.28	0.07	0.06
9575	0.02	0.17	0.27	0.48	0.14	0.12

Est. vol. total, Calls 5947 Puts 2725. Previous day's open int., Calls 292007 Puts 280948

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.24	4.843	1.921	4788	5.455	20.12	496.3	411.5	20.88	4.006	1.594	3.849	2.685	347.6	2.444
Denmark	(DKr)	54.14	10	8.791	2.622	1.040	2592	2.953	10.89	268.7	222.8	11.31	2.169	0.863	2.084	1.454	188.2	1.323
France	(FFr)	61.59	11.38	10	2.983	1.183	2949	3.360	12.39	305.7	253.5	12.86	2.467	0.982	2.371	1.654	214.1	1.505
Germany	(DM)	20.65	3.813	3.352	1	0.397	988.5	1.126	4.154	102.5	84.96	4.312	0.827	0.329	0.795	0.554	71.76	0.505
Ireland	(I£)	52.06	9.616	8.453	2.522	1	2493	2.840	10.48	258.4	214.2	10.87	2.085	0.830	2.004	1.398	180.9	1.272
Italy	(L)	2.089	0.386	0.339	0.101	0.040	100	0.114	0.420	10.37	8.595	0.436	0.084	0.033	0.080	0.056	7.259	0.051
Netherlands	(Fl)	18.33	3.386	2.977	0.888	0.352	877.7	1	3.689	90.98	75.44	3.828	0.734	0.292	0.706	0.492	63.71	0.448
Norway	(NKr)	49.70	9.180	8.070	2.407	0.955	2380	2.711	10	246.7	204.5	10.38	1.991	0.792	1.913	1.335	172.7	1.215
Portugal	(Es)	20.15	3.722	3.271	0.976	0.387	964.7	1.099	4.054	100	82.92	4.208	0.807	0.321	0.776	0.541	70.03	0.492
Spain	(Pta)	24.30	4.488	3.946	1.177	0.467	1163	1.326	4.889	120.6	100	5.075	0.973	0.387	0.935	0.653	84.46	0.594
Sweden	(SKr)	47.88	8.844	7.775	2.319	0.920	2293	2.612	9.635	237.7	197.1	10	1.918	0.763	1.843	1.286	166.4	1.170
Switzerland	(SFr)	24.96	4.611	4.053	1.209	0.480	1195	1.362	5.023	123.9	102.7	5.214	1	0.398	0.961	0.670	86.77	0.610
UK	(£)	62.75	11.59	10.19	3.039	1.205	3004	3.423	12.63	311.4	258.2	13.10	2.514	1	2.415	1.685	218.1	1.534
Canada	(C$)	25.98	4.798	4.218	1.258	0.499	1244	1.417	5.227	128.9	106.9	5.425	1.041	0.414	1	0.698	90.29	0.635
USA	($)	37.24	6.878	6.047	1.804	0.715	1783	2.031	7.493	184.8	153.3	7.777	1.492	0.593	1.434	1	129.4	0.910
Japan	(Y)	28.77	5.314	4.672	1.394	0.553	1378	1.570	5.789	142.8	118.4	6.009	1.153	0.459	1.108	0.773	100	0.703
Ecu	-	40.92	7.558	6.644	1.982	0.786	1959	2.232	8.233	203.1	168.4	8.545	1.639	0.652	1.575	1.099	142.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5503	0.5583	+0.0062	0.5586	0.5500	13,704	80,855
Sep	0.5550	0.5585	+0.0059	0.5585	0.5550	43	2,701
Dec	-	0.5600	+0.0048	0.5600	-	1	54

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7781	0.7792	+0.0006	0.7797	0.7738	27,284	91,623
Sep	0.7885	0.7890	+0.0005	0.7890	0.7862	70	1,843
Dec	-	+0.7990	+0.0004	-	-	27	297

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6670	0.6759	+0.0089	0.6767	0.6668	7,299	67,990
Sep	0.6775	0.6825	+0.0068	0.6825	0.6773	69	1,267
Dec	-	0.6801	-	-	-	1	19

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6662	1.6714	+0.0100	1.6796	1.6606	3,718	37,751
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	685
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	37

UK INTEREST RATES

LONDON MONEY RATES

Apr 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7⅝ - 5	7⅛ - 7⅛	7⅛ - 7⅛	7⅝ - 7⅝	7⅝ - 7⅝	7⅝ - 7⅝
Sterling CDs	-	-	7⅛ - 7⅛	7⅜ - 7⅜	7⅜ - 7⅜	7⅜ - 7⅜
Treasury Bills	-	-	7⅛ - 7⅛	7⅛ - 7⅛	-	-
Bank Bills	-	-	7⅛ - 7⅛	7⅛ - 7⅛	7⅜ - 7⅛	-
Local authority deps.	7⅛ - 7	7⅛ - 7	7⅜ - 7⅛	7⅜ - 7⅜	7⅜ - 7⅜	7⅝ - 7⅜
Discount Market deps	7⅝ - 7	7⅛ - 7⅛	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Apr 9, 7.0052pc. ECGD fixed rate Stg. Export Finance. Make up day Mar 31, 1998. Agreed rate for period Apr 26, 1998 to May 25, 1998, Scheme III 6.79pc. Reference rate for period Feb 28, 1998 to Mar 31, 1998, Schemes IV & V 7.054pc. Finance House Base Rate 8pc from Apr 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.53	92.53	-	92.56	92.51	24582	185705
Sep	92.69	92.68	-0.01	92.71	92.65	16182	107853
Dec	92.86	92.85	-0.01	92.89	92.82	16946	141464
Mar	93.07	93.05	-0.01	93.08	93.03	11173	84322
Jun	93.25	93.24	-0.01	93.26	93.22	4061	79598

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9250	0.08	0.25	0.44	0.05	0.07	0.09
9275	0.01	0.10	0.28	0.23	0.17	0.18
9300	0	0.04	0.15	0.47	0.36	0.30

Est. vol. total, Calls 5095 Puts 7375. Previous day's open int., Calls 281095 Puts 221019

EMS EUROPEAN CURRENCY UNIT RATES

Apr 14	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	[illegible]					23
Ireland						10
Spain						0
Italy						0
Finland						-0
Portugal						-1
France						-1
Netherlands						-1
Denmark						-1
Austria						-1
Germany						-2
Belgium						-1
NON ERM MEMBERS						
UK	[illegible]					-

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS			PUTS		
[illegible]						

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS			PUTS		
[illegible]						

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS			PUTS		
[illegible]						

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS			PUTS		
[illegible]						

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Bank plc	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association
* In administration

CONTRACTS & TENDERS

TENDER NOTICE

UK GOVERNMENT EURO TREASURY NOTES

For tender on 21 April 1998

1. The Bank of England announces the sale by Her Majesty's Treasury of €500 million nominal of UK Government Euro Treasury Notes, for tender on a bid-yield basis on Tuesday, 21 April 1998. These Notes will add to and be fungible with the €500 million of the same security sold by tender on 20 January 1998.

2. The €500 million of Notes to be sold by tender will be dated as of 29 January 1998 and will mature on 29 January 2001. Notes will bear an annual coupon of 4.25% payable on 29 January, starting on 29 January 1999. Payment for Notes allotted in the tender will be due on 24 April 1998; the amount payable will include 85 days accrued interest.

3 The arrangements for the tender are set out in the Information Memorandum on the UK Government Euro Treasury Note programme issued by the Bank of England on behalf of Her Majesty's Treasury on 13 January 1998 (the "Information Memorandum"), and in supplements to the Information Memorandum. This tender will be subject to the provisions of the Information Memorandum (as supplemented) and to the provisions of this notice.

4. The tender will open to anyone who wishes to apply. All tenders must be made on the printed application forms available on request from the Bank of England or, in the case of the market makers listed in the Information Memorandum (as supplemented), by telephone. Completed application forms must be lodged, by hand, at the Bank of England, Customer Settlement Services, Threadneedle Street, London not later than 10.30 a.m., London time, on 21 April 1998.

5. Tenders must be made on a yield basis (calculated on the basis of a month of 30 days and a year of 360 days) rounded to two decimal places. Each application form must state the yield bid and the amount tendered for.

6. Each tender at each yield must be made on a separate application form for a minimum of €500,000 nominal. Tenders above this minimum must be in multiples of €100,000 nominal.

7. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Notes in global form to their account with Euroclear or Cedel Bank, Notes will be credited in the relevant system against payment. For applicants who have requested definitive Notes, Notes will be available for collection at Customer Settlement Services at the Bank of England after 1.30 p.m. on 24 April 1998 provided cleared funds have been credited to the Bank of England's ECU Treasury Notes Account No. 59045828 with Lloyds Bank PLC, Bank Relations, St George's House, PO Box 787, 6-8 Eastcheap, London EC3M 1LL and provided that the Bank of England has received satisfactory evidence of entitlement to collection. Definitive Notes will be available in amounts of €1,000, €10,000, €100,000 and €1,000,000 nominal. If any applicant whose tender is accepted has requested definitive Notes, other applicants whose tender has been accepted and who requested Notes in global form may nevertheless be required to accept definitive Notes under the rules and procedures of Euroclear and/or Cedel Bank. In such event, such definitive Notes will be held by the Bank of England as the specialised depository for Euroclear and/or Cedel Bank, in such denominations as the Bank of England may determine, for such applicants who requested Notes in global form.

8. Her Majesty's Treasury reserves the right to reject any or part of any tender.

9. The tender notice issued on 13 January 1998 stated that €550 million nominal of the Notes allotted to the Bank of England for the account of the Exchange Equalisation Account ("EEA") on 29 January 1998 would be held by the Bank of England for the account of the EEA with the intention that they would be sold in subsequent tenders or might be made available for sale and repurchase operations with the market makers listed in the Information Memorandum (as supplemented). €500 million nominal of these Notes are to be sold in the tender on 21 April 1998, will consitute a further tranche of the Notes maturing on 29 January 2001, and will be fully fungible with the Notes sold on 20 January 1998. €50 million nominal of these Notes will be retained by the Bank of England for the account of the EEA and added to the Bank's holdings of Notes which may be made available for sale and repurchase operations with the market makers listed in the Information Memorandum (as supplemented).

10. Copies of the Information Memorandum (and supplements to it) may be obtained at the Bank of England. UK Government Euro Treasury Notes are issued under the National Loans Act 1968.

Bank of England
14 April 1998

Palladium valued higher than gold

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

For the first time in the history of precious metals, palladium is more valuable than gold.

Palladium, an essential material for some industrial and automotive catalysts, as well as some electronic components, is being boosted by increasing concern about the lack of exports from Russia, the biggest producer.

Its price was "fixed" in London yesterday afternoon at US$318 a troy ounce, well ahead of the London gold price "fix" of $309.50 an ounce. Palladium jumped by $31.50 an ounce – or 11 per cent – compared with Thursday's "fix" to an 18-year high. The price is more than double the $137 at this time last year.

In 1997, Russia, which accounts for about 60 per cent of the world's palladium requirements, failed to export any of the metal for the first six months because of bureaucratic wrangling.

Kamal Naqvi, analyst at Macquarie, the Australian bank, said: "It is now clear it will take some weeks, if not months, for Russian export licences to be issued. Obviously, a country that can't elect a new prime minister has palladium exports well down the list of its priorities."

John Bridges, analyst at Flemings Global Mining Group, pointed out that palladium was only a by-product of nickel-copper mining in Russia and of platinum mining in South Africa, which accounts for about 30 per cent of global palladium production. So neither of the big producers would respond to higher prices. It would be up to consumers to trim their use of the metal.

"Consumers typically use small amounts in high value products such as auto catalysts, dental fillings and small electrical components. Therefore, rapid substitution is unlikely," he said.

Consequently, relatively high palladium prices must be expected for some time to come. For example, present palladium lease rates indicated a price in 12 months' time of $220 an ounce, high by historical stan'ards.

Oil prices weakened yesterday as concerns about a global glut continued to weigh heavily over world crude markets.

The bellwether Brent Blend for May delivery was quoted at $13.66 a barrel in late trading on London's International Petroleum Exchange, 34 cents down on last Thursday's close.

But traders reported little clear price direction ahead of the publication overnight of the weekly report on US oil and refined product stocks.

The latest warning about the extent of the present oil surplus came from the International Energy Agency, the Paris-based organisation that monitors oil markets on behalf of the mainly industrialised countries.

Although the agency said OECD data could not confirm the "the major first-quarter stockbuild that observers unanimously regarded as inevitable", the report concluded: "Current supply exceeds demand and stocks are high, suggesting a continuation of a difficult market for producers."

The IEA revised downward world oil demand in the first quarter of the year by 400,000 barrels a day to 75m b/d. It predicts global oil demand will rise by 2 per cent this year, slightly lower than its previous forecast.

INDIA BAD WEATHER AND REDUCTION OF LAND UNDER CROP LOWERS EXPECTATIONS

Shortfall forecast in wheat harvest

By Kunal Bose in Calcutta

India's wheat production is set to fall this year as a result of bad weather and a reduction in land under the crop.

Wheat production in 1998 is expected to total 64.5m tonnes, compared with 68.71m tonnes last year. Experts said sowing was delayed by early winter rain, and a recent spell of hailstorms damaged the standing crop in some areas.

The official production target for the current year is 68.5m tonnes, but the government believes the public wheat distribution system will remain on track because it holds buffer stocks of nearly 6m tonnes.

The new federal government has also approved the import of 1.5m tonnes of wheat from Australia by the State Trading Corporation of India, a government agency.

"The deal was brokered by STC with the Australian wheat board at $142.50 a tonne in February when the United Front was in power," said a trade official. "There was apprehension that a new government might cancel the contract. But S.S. Barnala, food minister, quelled speculation by saying that unsubstantiated charges against those involved in negotiating the contract would not influence him in any way."

However, confusion over the import contract has delayed the arrival of the Australian wheat. The contract is from March to July delivery, and the delayed arrival of the imports will favour domestic wheat farmers, who will start selling their new crop in the next few days.

"Procurement by government agencies will be over by the end of June," said the official. "The government wants to maintain procurement of wheat at last year's level of 9.3m tonnes. The procurement price for the current season is up 35 rupees [88 cents a quinto to 510 rupees a quinto]. The public distribution system needs 11m tonnes of wheat and the buffer has to be replenished. Since the shortfall is to be met by imports, India will be required to buy more wheat from abroad. Last year, India imported 2.25m tonnes of wheat."

The growers are relieved that by the time wheat from Australia arrives, they will have sold a big portion of the new crop.

Most foreign trading houses believe India will import another 3m tonnes of wheat.

"The US is keen to re-enter the Indian market. It last sold wheat here in 1993," said an Indian food analyst. "We stopped buying wheat from the US because of [crop disease] concerns. A delegation from the US department of agriculture was in Delhi recently to remove the concerns about wheat diseases."

Some analysts think Canada will be India's first choice.

Delay in Indian crop set to lift mango prices

By Kunal Bose

Mango prices are expected to rise sharply as India, the world's largest producer of the tropical fruit, suffers a big setback in production. Unseasonal weather in the main growing regions is delaying this season's crop for six weeks until May.

"Prices in the domestic market will be 30-50 per cent higher, depending on the variety of mango," an exporter said. The rise in wholesale prices is likely to push up consumer prices by a similar percentage.

Alphonso, the finest and the most expensive mango, grown in the western Indian state of Maharashtra, will command a high premium in the world market as production drops by up to 70 per cent, he said. The principal markets for Alphonso are western Asia and the UK.

Production of Banganaballi and Totaburi, the other main exportable varieties, grown in the state Andhra Pradesh, is down 30 per cent. Production of mangoes in Uttar Pradesh and West Bengal will fall 30 per cent.

Exporters are also concerned about the quality of harvested mangoes. Mahamango, the agency that coordinates exports from Maharashtra, said: "The quality that is available this season is good for export only in canned form."

India increased mango exports by 8 per cent to 27,000 tonnes in the 1996-97 season. Exporters say the 1997-98 production shortfall will make it impossible to achieve this year's government target of 25 per cent growth in income from mango exports.

The size and quality of the mango crop depends almost entirely on the weather. Heavy rain and a late winter damaged the crop in Maharashtra and Andhra Pradesh, while heavy fog and high winds affected the crop in the east, an exporter said. The bad weather also caused repeated outbreaks of diseases in the fruit.

Production of Banganaballi and Totaburi varieties in Andrha Pradesh is down 30 per cent

"But weather permitting, India can raise mango exports to 45,000 tonnes by 2001," the exporter added.

According to the Agricultural and Processed Fruits Export Development Authority, India has 1.136m hectares under mango cultivation and productivity could be almost doubled to 15 tonnes a hectare if farmers were to adopt more scientific agricultural practices, such as using fertilisers, pesticides and more efficient harvesting methods.

The biggest challenge is to eliminate fruit flies in mangoes of exportable varieties and bring down the rate of export rejection from 40 per cent to 5 per cent.

India's normal annual production of 10m tonnes is set to rise as the leading mango growing states bring more areas under the crop. "Even Kerala, a southern state, which has a marginal presence in mango trade, is creating new mango orchards over nearly 8,000 hectares," a trader said.

Exporters say they need government assistance to help improve exports to the US, the European Union and Australia, which buy large quantities of the fruit from other producing countries.

"Whatever we are exporting now is entirely due to private initiative. We may have a 60 per cent share of world production but we account for less than 15 per cent of the world mango trade," said an exporter.

Asia effect waning, IMF says

By Our Commodities Staff

Commodity prices show signs of stabilising after sharp declines linked to the Asian financial crisis, according to the International Monetary Fund.

Since mid-1997, prices of primary commodities have fallen more than 10 per cent, affecting producers and consumers around the world.

But while the near-term outlook remains difficult to assess, there are indications that prices may be leveling off, the IMF said in its semi-annual World Economic Outlook report.

Weekly data show the index of non-fuel commodity prices has remained almost unchanged since the beginning of January, in contrast to December when the index fell each week.

Futures contracts have shown higher prices in recent months, and in February there was "some turnround" in the prices of hides such as leather and furs, natural rubber and timber, the IMF said.

"On the basis of futures and forward market prices and other information, the projected level of non-fuel commodity prices for calendar year 1998 is about 3 per cent above the current level," the IMF said.

The Asian financial crisis has brought higher import costs because of depreciated national currencies, less credit to finance imports and sharp reductions in demand.

World copper prices plunged 33 per cent between June 1997 and January 1998, the IMF said. Timber prices fell 24 per cent, nickel 20 per cent, zinc 16 per cent, hides 15 per cent and soyabean meal 11 per cent.

Natural rubber prices took the biggest fall – 37 per cent during the six-month period – while crude oil prices fell 13 per cent.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1428.5-29.5	1456-57
Previous	1406.5-07.5	1434-35
High/low		1460/1442
AM Official	1417.5-18.5	1448.5-49.0
Kerb close		1451-52
Open int.	263,819	
Total daily turnover	115,917	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1280-85	1310-15
Previous	1278-83	1305-10
High/low		1315/1310
AM Official	1275-76	1305-07
Kerb close		1309-14
Open int.	6,005	
Total daily turnover	2,323	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	579-80	585-6
Previous	583-84	584-85
High/low		588/581
AM Official	578.5-79.5	585-85.5
Kerb close		591-2
Open int.	35,213	
Total daily turnover	13,256	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5425-35	5520-25
Previous	5300-10	5390-400
High/low		5570/5410
AM Official	5340-45	5455-60
Kerb close		5500-05
Open int.	52,379	
Total daily turnover	21,424	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5650-00	5610-15
Previous	5630-40	5520-90
High/low		5620/5600
AM Official	5650-00	5615-25
Kerb close		5600-10
Open int.	17,153	
Total daily turnover	4,696	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1118-19	1141-42
Previous	1122-23	1144-45
High/low		1150/1132
AM Official	1117-18	1141-41.5
Kerb close		1132-33
Open int.	81,334	
Total daily turnover	24,568	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1804-05	1814-15
Previous	1749-50	1762-63
High/low		1816/1792
AM Official	1788-89	1800-801
Kerb close		1804-05
Open int.	162,820	
Total daily turnover	99,806	

■ LME AM Official £/$ rate: 1.6781
LME Closing £/$ rate: 1.6855

Spot: 1.6849 3 mths: 1.6777 6 mths: 1.6704 9 mths: 1.7143

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	81.65	-0.35	82.50	81.45	103	623
May	81.90	-0.35	82.80	81.40	3,516	23,348
Jun	81.95	-0.40	82.80	81.90	35	2,537
Jul	82.05	-0.45	82.95	81.60	2,373	13,559
Aug	82.20	-0.50	82.50	82.50	3	1,570
Sep	82.30	-0.55	83.00	82.05	112	5,405
Total					6,821	66,578

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	308.70-309.20		
Opening	308.40-308.90		
Morning fix	309.50	184.72	466.20
Afternoon fix	309.50	183.70	461.34
Day's High	310.00-310.40		
Day's Low	308.30-308.70		
Previous close	309.40-309.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.39	6 months	3.94
2 months	4.23	12 months	3.66
3 months	4.18		

Silver Fix	p/troy oz.	US cts equiv
Spot	383.30	641.00
3 months	383.55	632.55
6 months	383.65	636.10
1 year	383.15	637.25

Gold Coins	$ price	£ equiv
Krugerrand	307-310	182-184
Maple Leaf	-	-
New Sovereign	72-76	43-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz., $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	307.9	-2.9	310.0	308.0	27	421
Jun	310.0	-2.9	312.9	309.7	16,881	101.6k
Aug	312.2	-2.9	315.3	312.3	121	8,563
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz., $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PALLADIUM NYMEX (100 Troy oz., $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SILVER COMEX (5,000 Troy oz., Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls, c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS IPE (1,000 therms; pence per therm)

May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls, c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	73.25	+0.45	73.35	73.00	42	1,926
Jul	75.25	+0.50	75.50	75.25	88	1,608
Sep	74.25	+0.25	-	-	-	143
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

	Close	Prev
BFI	[illegible]	[illegible]

PULP AND PAPER

■ PULPEX OMLX (OSS, 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	997	-42	1028	996	3,017	25,039
Jul	1016	-40	1047	1016	7,614	17,887
Sep	1041	-37	1069	1041	1,567	21,796
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA (ICCO) (SDR's/tonne)

Apr 13	Price	Prev. day
Daily	[illegible]	[illegible]

■ COFFEE LIFFE ($ tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

Apr 13		Prev. day
Comp. daily	[illegible]	[illegible]
15 day average	[illegible]	[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Apr 14	Apr 9	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ CRB Futures (Base: 1967 = 100)

Apr 13	Apr 9	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

Apr 13	Apr 9	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	[illegible]	to	529,025
Aluminium alloy	[illegible]	to	48,520
Copper	[illegible]	to	323,575
Lead	[illegible]	to	106,825
Nickel	[illegible]	to	64,722
Zinc	[illegible]	to	470,725
Tin	[illegible]	to	6,870

Spices from Man Producten
Prices in US$ per tonne. Black pepper was the most active and firm market of spices during the week. There were small arrivals of the new crops from India and Vietnam, but the supply position is tight and prices are expected to strengthen further. ATSA $5,750 spot, $5,600 FAQ. White pepper supply also remains tight with prices around $800 spot. New crop $6,750 CIF.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	67.925	-0.200	68.050	67.475	3,064	9,186
Jun	68.225	-	68.300	67.725	8,341	41,894
Aug	68.750	+0.275	68.775	68.300	1,533	18,879
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

	Jun	Sep	Jun	Sep
1450	[illegible]	[illegible]	[illegible]	[illegible]
1500	[illegible]	[illegible]	[illegible]	[illegible]
1550	[illegible]	[illegible]	[illegible]	[illegible]

■ COPPER (Grade A) LME

	Jun	Sep	Jun	Sep
1700	[illegible]	[illegible]	[illegible]	[illegible]
1800	[illegible]	[illegible]	[illegible]	[illegible]
1900	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE LIFFE

	May	Jul	May	Jul
1850	[illegible]	[illegible]	[illegible]	[illegible]
1900	[illegible]	[illegible]	[illegible]	[illegible]
1950	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA LIFFE

	May	Jul	May	Jul
975	[illegible]	[illegible]	[illegible]	[illegible]
1000	[illegible]	[illegible]	[illegible]	[illegible]
1025	[illegible]	[illegible]	[illegible]	[illegible]

■ BRENT CRUDE IPE

	Jun	Jul	Jun	Jul
1350	-	-	29	-
1400	62	-	51	53
1450	37	77	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$11.70-1.72x	-0.49
Brent Blend (dated)	$13.12-3.14	-0.31
Brent Blend (May)	$13.62-3.64	-0.53
W.T.I.	$15.20-5.22x	-0.47

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$156-158	-2
Gas Oil	$133-134	-2.5
Heavy Fuel Oil	$68-70	
Naphtha	$123-125	
Jet fuel	$142-144	-1
Diesel	$137-138	-2

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.00-9.10	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

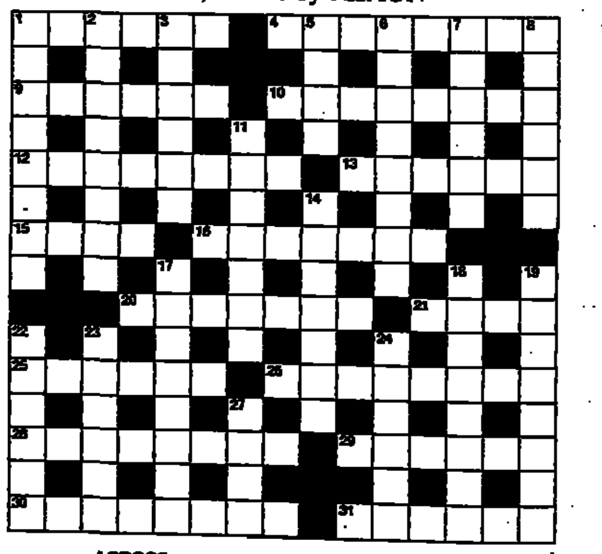
Gold (per troy oz)♣	$308.85	-0.70
Silver (per troy oz)♣	641.00c	+0.50
Platinum (per troy oz.)	$429.00	+10.00
Palladium (per troy oz.)	$318.00	+31.50
Copper	88.0c	+4.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.23r	+0.45
Tin (New York)	268.5	
Cattle (live weight)	87.98p	+0.42*
Sheep (live weight)	109.97p	+8.57*
Pigs (live weight)†	72.13p	+3.84*
Lon. day sugar (raw)	$232.40	-6.00
Lon. day sugar (wte)	$251.30	-4.30
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (May)♥	47.25p	
Rubber (Jun)♥	48.25p	
Rubber (KL RSS No1)	287.00m	+6.00
Coconut Oil (Phil)§	565.0y	-5.0
Palm Oil (Malay.)§	655.0	+30.0
Copra (Phil)§	$367.5y	-2.5
Soyabeans (US)	166.0	-7.0
Cotton Outlook'A' index	64.90	
Wooltops (64s Super)	360p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y May/Jun. x May. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on ... [illegible]

JOTTER PAD

CROSSWORD

No.9,656 Set by ALAUN



ACROSS
1 Lying back ourselves against the tree (6)
4 So we had arranged to have the daughter followed (8)
9 Delivered a warning that was laughed at (6)
10 Spend much time on trips (8)
12 Unable to get away from the topic of home (8)
13 Claim a quarter after the legal wrangle (6)
15 Set a day to go in to see her (4)
16 The master spy has infiltrated – a red (7)
20 Be sorry about the misspelling "nite" train (7)
21 Given a role you can throw yourself into? (4)
25 Heavens! Beset by red tape! (6)
26 Hit man the gun was covering (8)
28 Delivery of a Dresden figurine (8)
29 Am having a snooze on return from the country (6)
30 The same people make the contribution (8)
31 Among those expected to win, was pipped (6)

DOWN
1 "What the methodical like to have" is the clue she'd solved (8)
2 Goes on – or returns (8)
3 Jabber that will irritate (6)
5 The mistake is holding a preliminary event (4)
6 Standing to lose one's girlfriend about it, is most unhappy (8)
7 Admonished with a finger for the gag we'd cracked (6)
8 The so-and-so made a run for it (6)
11 Dressed like a nun, be at home (7)
14 The consequences of breaking the rules way back (7)
17 In a home zone and abroad (4,4)
18 Slow draw (8)
19 The usual post (8)
22 Found time flew (6)
23 Court exercise (6)
24 Crib from the scale of payments on page one (6)
27 A very good headlight (4)

Solution to Saturday's prize puzzle on Saturday April 25.
Solution to yesterday's prize puzzle on Monday April 27.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Asia effect waning, IMF says

CROSSWORD

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]							

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£15[illegible]	[illegible]	[illegible]	[illegible]	-	4.2	8.8
Barlow	‡	[illegible]	[illegible]	[illegible]	[illegible]	-	2.8	13.9
Gold Flds Prop R		[illegible]	[illegible]	[illegible]	[illegible]	-	5.9	14.1
SA Breweries R	†	[illegible]	[illegible]	[illegible]	[illegible]	-	1.7	-
Standard Bank		[illegible]	[illegible]	[illegible]	[illegible]	-	1.4	-
Tiger Oats		[illegible]	[illegible]	1100	780	-	2.0	18.3
Tongaat-Hulett R		[illegible]	+3½	780	563	-	2.4	15.2

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		[illegible]	-	[illegible]	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- † Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ◆ Merger bid or reorganisation in progress

[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An International service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the Internet at http://www.FT.com.

Footsie falls back after scaling intra-day peak

MARKET REPORT

By Philip Coggan, Markets Editor

The UK stock market returned from its holidays yesterday rather like a child devouring an Easter egg. In the morning, investors' showed a ravenous appetite for stocks, driving the FTSE 100 index up to an intra-day high. In the afternoon, indigestion set in.

The spark for the latest surge in prices came from the US, where the two banking mergers announced on Monday prompted another round of speculation in financial stocks. The sector provided Footsie's top seven performers of the day.

There was also some decent news on the economic front. Producer price figures, which showed a 0.2 per cent month-on-month gain in output (factory gate) prices and a 1 per cent drop in input prices, confirmed that manufacturers were facing little inflationary pressure on the raw materials front.

"We continue to expect that growth and inflation this year will both be below consensus expectations and that, as evidence to this effect comes through, then fears of higher base rates will fade," said Michael Saunders, UK economist at Salomon Smith Barney.

"The next base rate move is likely to be down, albeit not until late this year."

Footsie duly forged ahead in the morning and at its best of the day the index was at an intra-day peak of 6,150.5, up 45.

Profit-taking then set in, especially as continental markets retreated in the face of a weaker dollar. Just after 3pm, Footsie was down 22.3 at 6,083.2.

But Wall Street opened strongly, helped by the banking mergers and some economic data that appeared to lessen the chance that the Federal Reserve would raise interest rates.

The Dow Jones Industrial Average was around 74 points higher at the close of London trading.

Helped by the Dow, Footsie managed to hold on to the 6,100 level, closing down 1.4 at 6,104.1. The 250 and SmallCap indices both edged ahead, although neither set a record. The former gained 13.5 to 5,541.8, the latter 2.0 to 2,636.3.

Sterling and gilts were fairly flat, giving the equity market little direction.

There were some warning signs for the market.

One of the more solid stocks, Associated British Foods, issued a sterling-related second half profits warning along with a fall in its interim results.

There was also a profits warning from Drew Scientific, a diagnostic equipment company, and disappointing figures from the electrical engineer Dowding & Mills.

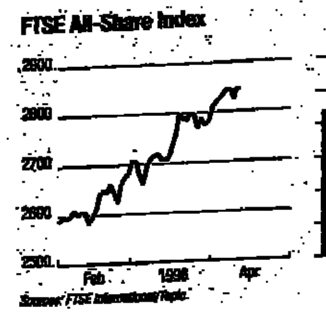
"This is a market that can only afford to look upwards," said Richard Jeffrey, Charterhouse group economist. "It will seize on any good news as a reason to go higher.

"It could go on for a lot longer but I doubt whether it is sustainable over six to 12 months."

But the team at Credit Suisse First Boston remained confident. It said: "The low level of long-term rates and the prospect of a peak in short rates provides compensation for the lack of earnings momentum, particularly when set alongside the favourable flow of funds background."

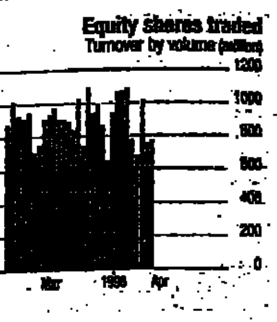
Volume was 807.9m shares.

FTSE All-Share Index



Source: FTSE International/Reuters

Equity Shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	6104.1	−1.4
FTSE 250	5541.8	+12.5
FTSE 350	2921.0	+0.6
FTSE All-Share	2844.98	+0.73
FTSE All-Share yield	2.74	2.74

FT 30	3846.0	−9.7
FTSE Non-Fins p/e	22.86	22.78
FTSE 100 Fut Jun	6160.0	+11.0
10 yr Gilt yield	5.80	5.81
Long gilt/equity yld ratio	2.13	2.18

Best performing sectors

1 Banks: Retail +1.9
2 Other Financial +1.9
3 Transport +0.7
4 Distributors +0.6
5 Engineering: Vehicles +0.4

Worst performing sectors

1 Food Producers −1.8
2 Gas Distribution −1.8
3 Electricity −1.4
4 Tobacco −1.3
5 Alcoholic Beverages −1.1

Warning knocks ABF

COMPANIES REPORT

By Joel Kibazo and Peter John

A cautious interim results statement hit Associated British Foods and left it as one of the worst performers in the FTSE 100 yesterday.

Majority shareholder Garry Weston warned that the continued strength of sterling makes it "unlikely that last year's operating results will be matched".

Profits of £193m for the 24 weeks to the end of February were towards the top end of analysts' expectations, but dealers said the warning and general slowdown in trading had triggered a wave of profit-taking in the stock. The shares lost 28¼ to 597½p.

Several brokers moved to downgrade current year profit estimates including Sally Jones at Credit Lyonnais, who trimmed her profits estimate by £12.5m to £413m. She remains a seller of the shares on valuation grounds.

NatWest Markets said of the stock: "With little or no earnings growth in prospect this year, a premium rating remains vulnerable.

Big banks propped up an unloved market as the UK reacted to the latest US merger announcements.

News that BankAmerica and NationsBank are going to link, combined with the announcement of a smaller tie-up between Banc One and First Chicago, gave further impetus to a sector already boosted by last week's revelation that Citicorp and Travelers are to join hands.

The market saw HSBC as most likely to indulge in earnings-enhancing diversification by, for example, buying an insurer. The shares rose 43 to £20.25, while Legal & General, seen as the most obvious life assurance plum, gained 4 to 750p even though director share-selling suggested no deal was imminent. Analysts said the latest US deals were a reminder that straight cost-saving agreements were still high on the agenda.

Those are the kind of deals the market most expects of banks such as Barclays and National Westminster, the former sector leaders which have been eclipsed by HSBC and Lloyds TSB. NatWest rose 40 to £12.00 although Barclays shed 5 to £18.20. Lloyds was up 52½ to £10.75 by the close.

Commercial Union led the composite insurers lower as analysts calculated the impact of Easter flooding in the UK.

FT 30 INDEX

	Apr-14	Apr-09	Apr-08	Apr-07	Apr-06	Yr ago	*High	*Low
FT 30	3846	3855.7	3824.4	3846.5	3857	2833.1	3872.4	3832.1
Ord. div. yield	2.84	2.84	2.86	2.84	2.84	3.93	4.22	2.83
P/E ratio net	24.97	24.99	24.77	24.96	25.00	16.90	25.86	15.60
P/E ratio nil	24.75	24.77	24.55	24.74	24.78	16.73	24.84	15.71

FT 30 since compilation: high 3857 06/04/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3855.7	3851.3	3858.2	3854.8	3863.2	3848.3	3836.4	3842.2	3840.8	3868.5	3832.1

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STOCK MARKET TRADING DATA

	Apr 14	Apr 9	Apr 8	Apr 7	Apr 6	Yr ago
SEAQ bargains	72,424	65,118	67,376	83,021	91,813	40,800
Equity turnover (£m)†	-	3314.7	4466.4	3579.0	3537.2	1839
Equity bargains†	-	55,501	63,089	67,804	79,919	36,575
Shares traded (m)†	-	863.0	997.4	829.4	776.5	477.8
Total market bargains‡	-	68,143	78,901	82,307	89,801	na
Total turnover (£m)‡	-	5031.9	6188.8	4961.3	4542.7	na
Total shrs traded (m)‡	na	‡1181.1	‡1304.6	‡1121.3	‡955.0	na
Tradepoint turnover (£m)	na	23.1	38.9	51.4	46.5	na
Tradepoint shrs traded	na	7,305	7,171	10,711	11,020	na

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

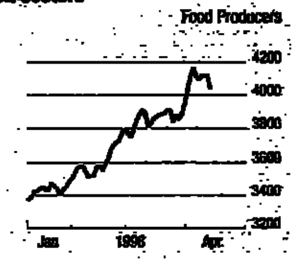
Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	781	Total Highs	220	Total contracts	37,068
Total Falls	737	Total Lows	46	Calls	16,918
Same	1,470			Puts	20,150

Apr 14 *Data based on Equity shares listed on the London Share Service.

Best and worst performing FTSE sectors

Retail Banks

Food Producers



Source: Datastream/ICV

Shares in the insurer dropped 5 per cent at one stage and other UK insurance stocks also fell sharply amid worries over the costs.

Analysts suggested Royal & Sun Alliance, the largest composite insurer, may have to pay out £80m and Guardian Royal Exchange estimated the cost at about £20m. CU was working hard to get a figure out to the market as soon as possible but analysts estimates the cost at about £50m.

The Association of British Insurers estimated the cost to insurance companies of Britain's worst floods for nearly 50 years at £400m.

But others put claims as high as £1.5bn. David Hudson, insurance analyst at Credit Lyonnais, said that even claims above £1bn were not a huge morsel for the industry to swallow.

But he said they could be symptomatic of a chill wind in the sector. "Suddenly the luck seems to be running out somewhat. The news flow is getting worse."

CU traded off 63p but ended the day only 15 down at £12.65, Guardian fell 7¾ to 432¼p and Royal & Sun Alliance 11¼ to 771p. However, General Accident ended a net 34 higher at £15.82 after the stock exchange was forced to adjust prices at the close of the previous day.

Strong selling was seen in Lonrho. By the close, turnover had reached a hefty 38m shares with most of the stock said to have been sold at 102p a share. The shares eased 2 to 102p.

Signet Group, with volume of 40m, was the most heavily traded FTSE 250 stock yesterday. The shares edged forward to close at 43¾p.

Wassall improved 7 to 320p. News of the group's reorganisation is expected later this week.

Cable & Wireless up

Cable & Wireless gained 10¼ to 748½p after the company confirmed it has agreed in principle to sell its one-fifth interest in Bouygues Telecom, the French mobile operator, to Telecom Italia.

The UK telecoms group said it is also exploring with Telecom Italia opportunities for co-operation on their international networks and provision of services to global customers.

In the rest of the sector, British Telecommunications was a busy trade with volume of 8.1m by the close. The shares followed the trend and closed 2 off at 658p.

Mobile phones operator Orange was heavily sold, and the shares dropped 13 to 411p.

SmithKline Beecham traded higher ahead of the first of its research and development presentations but ended a net 11¼ off at 788¾ on late profit-taking.

At the presentation in New York, SmithKline announced it had 60 projects in its product portfolio and the development time of drugs had been cut.

Paul Diggle of SG Securities said the comments during UK market hours had delivered "nothing earth-shattering but the bits and pieces all looked pretty solid."

Results in the Nationwide first division resulted in contrasting fortunes for football clubs Nottingham Forest and Sunderland.

Aim-quoted Nottingham, which looks likely to be promoted to the Premier League, gained 12 to 81½p. But Sunderland is now level on points with Middlesbrough and Charlton and its prospects for elevation are in doubt; the shares fell 39 to 506p.

Inspec, the speciality and fine chemicals company, jumped 34¼ to 277p after the group said it was selling its Antwerp business for £84m to newly-formed Ineos.

Centrica eased 3 to 110¼p, with Warburg Dillon Read said to have downgraded its recommendation on the stock from "buy" to "hold". Volume was 6.2m.

Retailers Arcadia and Debenhams, created through the demerger of Burton Group, earlier rose 12½ to 450p and 10 to 377¼p after Morgan Stanley Dean Witter was said to have upgraded its recommendation on both stocks.

The broker is believed to have placed an "outperform" rating on both stocks. Morgan Stanley is said to have set a 12 month share price target of 495p for Arcadia and 425p for Debenhams.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6085.0	6149.0	+30.0	6160.0	6085.0	16527	150322
Sep	6190.0	6229.0	+30.0	6200.0	6190.0	1750	5111
Dec	6297.0	6322.0	+48.0	6297.0	6297.0	2	2

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5593.0	5590.0	+15.0	5593.0	5588.0	72	6553

■ FTSE 100 INDEX OPTION (LIFFE) (*6,100) £10 per full index point

	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P	6300 C	6300 P
Apr	168½	9½	123	14½	83	28	50	44½	28	72½	11½	111½	4	160	1	210
May	275	91	237½	103	204	124	174½	145½	145½	167	120½	193	100	226	78½	259
Jun	357	152	324	169	294	188½	262½	210	235	232	204	258½	180½	286½	158½	318
Jul	413	184½	383	204	353	224	323	244	293½	265	284	287½	241	315½	216½	345
Dec†			696	335			572½	373½			511½	409½			454½	460

Calls 1,799 Puts 2,260

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P	6225 C	6225 P	6275 C	6275 P
Apr	187	6	141½	10½	18	19½	32	53½	66	36½	88½	18	125½	7	2½	170½
May	289½	83	253½	97	219	112	188½	131½	158	151½	133½	178	118	202	88½	230½
Jun	378½	144	338½	155	304½	171	274	190	244½	210	217½	232½	191½	255½	167	280½
Sep	538½	232			472	263			412	300			358	340		
Dec†	677	287			614	320½			554½	356			495½	393		

Calls 5,583 Puts 10,858 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	-	100	97½	Aberdeen Cnvtble C	98½	+½	-	-	-	-
*100	F.P.	35.7	102	100	Advent 2 VCT	102		-	-	-	-
-	F.P.	-	12	4	Easdaq 01/03 Wts	4½		-	-	-	-
-	F.P.	531.3	186½	178	Express Dairies	178	−½	LW8.0	1.5	5.6	14.6
§255	F.P.	243.6	496½	409	Guardian IT	476½	−8½	-	-	-	-
-	F.P.	4.30	3¼	2¾	†Harford	3		-	-	-	-
*-	F.P.	18.6	100½	99½	INVESCO Grd Opps	100½		-	-	-	-
*-	F.P.	13.2	100	99	Do Zero Div Pf	100		-	-	-	-
§50	P.P.	3.25	52½	52½	Microcap Growth Tst	52½		-	-	-	-
100	F.P.	39.0	97½	97½	Murray VCT 3	97½		-	-	-	-
§25	F.P.	5.72	117½	77	†Peel Hotels	114½	+7	-	-	-	-
*	F.P.	18.0	92½	90	Quester VCT 2	90		12.4	-	3.3	-
-	F.P.	7.11	110	65½	†Salvatore	70½	−5	-	-	-	-
-	F.P.	-	34½	34½	Transport Dev Wts	34½		-	-	-	-
§90	F.P.	10.9	57½	50	VI	54½	−1	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
280	Nil	17/4	25pm	4½pm	Cap & Reg Props	5pm	
10	Nil	17/4	7½pm	3½pm	Oxford Biomedica	4½pm	

pm premium.

FTSE GOLD MINES INDEX

	Apr 13	% chg on day	Apr 9	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1243.88	+0.3	1240.25	1590.37	1.96	-	1818.85	881.23
■ Regional Indices								
Africa (14)	1262.98	0.0	1263.42	1920.22	4.30	27.85	1920.22	921.78
Australasia (7)	1493.43	−0.3	1497.36	1852.46	2.27	20.32	1880.86	833.63
North America (11)	1218.82	+0.5	1212.46	1486.60	1.00	45.56	1574.16	884.86

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Apr 14	Day's chge%	Apr 9	Apr 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6104.1	—	6105.5	6055.2	4286.8	2.68	2.27	2.07	22.52	51.68	2659.02
FTSE 250	5541.8	+0.2	5529.3	5521.1	4522.3	2.95	2.48	2.07	20.45	41.54	2384.95
FTSE 250 ex IT	5579.5	+0.2	5567.6	5559.8	4585.5	3.04	2.56	2.13	19.28	42.78	2389.75
FTSE 350	2921.0	—	2920.4	2898.9	2112.7	2.73	2.30	2.07	22.11	24.20	2599.58
FTSE 350 ex IT	2926.3	—	2925.8	2905.0	-	2.74	2.32	2.09	21.87	24.44	1335.79
FTSE 350 Higher Yield	2852.7	−0.2	2858.7	2837.0	2047.5	3.69	3.15	1.96	17.27	28.40	2165.43
FTSE 350 Lower Yield	2996.3	+0.2	2992.4	2972.8	2183.7	2.00	1.67	2.23	28.01	20.63	2171.92
FTSE SmallCap	2636.28	+0.1	2634.28	2631.32	2293.12	2.88	2.33	1.55	28.12	18.48	2282.28
FTSE SmallCap ex IT	2627.10	—	2625.84	2623.87	2307.90	3.08	2.49	1.60	25.35	16.61	2296.45
FTSE All-Share	2844.98	—	2844.25	2825.34	2084.21	2.74	2.31	2.04	22.40	23.21	2589.41
FTSE All-Share ex IT	2852.88	—	2852.30	2833.00	-	2.76	2.33	2.06	22.03	23.61	1325.55

■ FTSE Actuaries Industry Sectors

	Apr 14	Day's chge%	Apr 9	Apr 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4664.16	−1.0	4709.81	4623.15	3997.95	3.22	2.78	1.85	21.01	29.11	2125.37
12 Extractive Industries(6)	3110.81	−1.0	3142.88	3112.36	4064.69	4.87	4.03	2.10	13.65	72.61	980.58
15 Oil, Integrated(4)	5224.37	−1.0	5279.16	5165.01	4098.57	3.19	2.73	1.80	21.77	19.43	2443.97
16 Oil Exploration & Prod(13)	3124.90	−0.1	3128.38	3145.00	3470.08	1.85	1.53	1.92	35.23	29.18	1939.71
20 GEN INDUSTRIALS(221)	2207.96	—	2208.75	2199.03	1971.71	3.39	2.86	2.18	16.88	22.42	1292.78
21 Construction(38)	1607.93	+0.1	1605.76	1609.06	1336.90	3.02	2.45	2.51	16.62	12.40	1428.12
22 Building Matls & Merchs(27)	1847.33	+0.1	1845.73	1836.53	1855.97	4.04	3.44	2.02	15.33	21.96	1001.73
23 Chemicals(24)	2888.83	−0.6	2905.78	2883.90	2248.14	3.25	3.03	1.84	20.97	30.36	1473.46
24 Diversified Industrials(10)	1437.93	+0.2	1434.64	1442.82	1462.64	3.95	3.70	2.18	14.50	17.93	882.08
25 Electronic & Elect Equip(26)	2447.20	+0.4	2438.64	2470.47	2175.06	3.58	2.85	1.64	21.56	18.13	1346.86
26 Engineering(62)	2981.76	−0.2	2987.26	2968.48	2550.83	3.19	2.83	2.38	16.43	32.11	1919.20
27 Engineering, Vehicles(10)	4099.17	+0.4	4083.49	4011.04	2832.81	2.17	1.99	3.31	17.40	27.83	2251.78
28 Paper, Pckg & Printing(24)	2219.58	+0.1	2217.47	2209.59	2479.52	4.62	3.87	2.19	12.37	27.24	898.26
30 CONSUMER GOODS(92)	5915.48	−0.8	5962.70	5946.68	4161.69	2.44	2.21	1.82	28.16	59.10	2334.59
32 Alcoholic Beverages(6)	4111.45	−1.1	4157.98	4163.45	2898.35	2.83	2.80	1.85	23.85	55.09	1606.15
33 Food Producers(25)	4044.82	−1.8	4120.98	4095.15	2857.39	2.87	2.28	1.81	24.50	28.58	1948.55
34 Household Goods & Textls(24)	3841.26	+0.1	3837.63	3596.79	2854.22	3.01	2.68	2.22	18.72	38.12	1531.06
36 Health Care(14)	2336.79	+0.4	2328.11	2316.40	2257.92	2.15	1.94	2.30	25.29	9.49	1484.77
37 Pharmaceuticals(20)	10132.07	−0.4	10171.04	10167.19	6549.64	1.81	1.60	1.70	40.61	85.22	3820.00
38 Tobacco(3)	4659.82	−1.3	4721.57	4670.82	4292.68	5.15	4.87	1.78	13.63	121.61	1301.88
40 SERVICES(278)	3446.79	−0.1	3448.80	3431.59	2602.67	2.45	1.99	2.00	25.48	16.80	1897.80
41 Distributors(28)	2895.68	+0.6	2878.04	2850.60	2684.73	3.27	2.70	2.01	18.99	26.68	1133.85
42 Leisure & Hotels(28)	3942.30	+0.4	3927.57	3899.39	3391.93	2.55	2.04	2.36	20.74	50.51	2232.16
43 Media(41)	4463.74	−0.2	4473.13	4447.30	4169.49	2.30	1.94	2.17	24.99	44.49	1699.13
44 Retailers, Food(13)	3100.04	−0.3	3110.91	3100.56	1993.02	2.72	2.18	2.27	20.25	5.74	2089.60
45 Retailers, General(49)	2398.39	−0.1	2401.80	2386.93	2058.93	3.02	2.42	2.23	18.55	11.16	1451.14
46 Telecommunications(10)	3840.93	+0.1	3838.77	3822.68	2260.93	2.29	1.85	1.51	36.16	4.04	1867.54
47 Breweries, Pubs & Rest.(24)	4405.34	−0.4	4423.53	4375.92	3235.98	2.68	2.14	2.40	19.44	16.53	2235.29
48 Support Services(62)	4874.61	−0.5	4898.91	4891.47	2844.61	1.22	1.03	2.56	40.04	13.51	3203.40
49 Transport(25)	3586.63	+0.7	3561.79	3554.30	2779.49	2.85	2.33	1.29	34.08	23.54	1592.53
60 UTILITIES(23)	3787.00	−1.1	3828.96	3798.65	2753.48	4.10	3.28	1.87	16.28	6.35	1785.87
62 Electricity(9)	4219.97	−1.4	4277.88	4261.59	3038.24	4.42	3.54	2.17	13.01	7.28	2434.89
64 Gas Distribution(2)	2735.00	−1.8	2784.70	2783.87	1663.64	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TRADING VOLUME

■ Major Stocks yesterday

	Vol 000's	Closing price	Day's change
3i	1,100	590	−6
AMVESCAP	324	490½	+12
ASDA Group	7,800	218½	+¼
Abbey National	4,000	1201	−2
Alliance & Leicester	2,300	990xd	+6½
Allied Domecq	2,800	633	+1

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Apr 14 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Apr 14 / Frs.)

[illegible]

CZECH REP (Apr 14 / Koruna)

[illegible]

DENMARK (Apr 14 / Kr)

[illegible]

FINLAND (Apr 14 / Mkk)

[illegible]

FRANCE (Apr 14 / Frs.)

[illegible]

GERMANY (Apr 14 / Dm.)

[illegible]

GREECE (Apr 14 / Drachmae)

[illegible]

ITALY (Apr 14 / Lira)

[illegible]

NETHERLANDS (Apr 14 / Fls.)

[illegible]

NORWAY (Apr 14 / Kroner)

[illegible]

POLAND (Apr 14 / Zloty)

[illegible]

PORTUGAL (Apr 14 / Escudo)

[illegible]

SPAIN (Apr 14 / Pts.)

[illegible]

SWEDEN (Apr 14 / Kronor)

[illegible]

SWITZERLAND (Apr 14 / Frs.)

[illegible]

TURKEY (Apr 14 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Apr 14 / Yen)

[illegible]

HONG KONG (Apr 14 / H.K.$)

[illegible]

INDONESIA (Apr 14 / Rupiah)

[illegible]

MALAYSIA (Apr 14 / MYR)

[illegible]

NEW ZEALAND (Apr 14 / NZ.$)

[illegible]

SINGAPORE (Apr 14 / S$)

[illegible]

AUSTRALIA (Apr 14 / Aus$)

[illegible]

SOUTH KOREA (Apr 14 / Won)

[illegible]

TAIWAN (Apr 14 / TW $)

[illegible]

THAILAND (Apr 10 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Apr 14 / Rand)

[illegible]

AMERICAS

CANADA

TORONTO (Apr 14 / Can $) 4 pm close

[illegible]

MONTREAL (Apr 14 / Can $) 4 pm close

[illegible]

MEXICO (Apr 14 / Peso) 12.30pm

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY APRIL 13 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY APRIL 10 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	214.62	-0.3	190.63	175.62	203.41	217.85	0.0	3.57	215.20	190.54	176.94	203.35	217.85	243.87	190.26	217.79
Austria (23)	221.64	-0.3	196.86	181.36	210.06	209.92	0.0	1.58	222.30	196.83	182.78	210.06	209.92	225.19	175.14	175.63
Belgium (26)	319.96	-0.3	284.19	261.81	303.24	296.66	0.0	2.41	320.83	284.06	263.79	303.17	296.66	320.83	227.73	228.62
Brazil (30)	267.24	1.2	237.36	218.67	253.27	560.37	1.2	1.83	264.13	233.86	217.17	248.59	553.81	322.44	184.94	240.48
Canada (120)	243.55	0.1	216.33	199.29	230.83	251.95	0.3	1.59	243.21	215.34	199.98	229.82	251.14	247.29	178.27	178.27
Denmark (34)	514.96	-0.3	457.40	421.38	488.06	488.86	0.0	1.24	516.50	457.30	424.67	488.06	486.86	517.84	348.27	354.30
Finland (26)	389.84	-0.3	346.26	318.99	369.47	452.76	0.0	1.99	390.96	346.18	321.47	369.46	452.78	392.61	243.25	247.61
France (79)	301.71	-0.3	267.98	246.88	285.94	289.15	0.0	2.02	302.58	267.91	248.79	285.92	289.15	304.62	209.81	213.69
Germany (58)	283.61	-0.3	252.08	232.23	268.98	268.98	0.0	1.22	284.65	252.03	234.04	268.98	268.98	284.65	193.39	196.73
Hong Kong, China (66)	341.54	0.0	303.36	279.47	323.70	339.77	-0.1	4.65	341.67	302.51	260.93	322.86	339.94	580.03	262.93	452.94
Indonesia (27)	64.52	6.6	57.31	52.79	61.15	296.85	-1.1	2.27	60.43	53.51	49.69	57.11	300.30	254.90	27.67	225.37
Ireland (16)	515.34	-0.3	457.73	421.89	488.41	525.29	0.0	1.85	517.05	457.80	425.13	488.59	526.29	525.09	322.44	326.49
Italy (54)	167.92	-0.3	149.15	137.40	159.14	225.85	0.0	1.10	168.41	149.11	138.47	158.14	225.85	177.15	85.70	86.74
Japan (480)	100.07	-0.3	88.89	81.89	94.85	81.89	-0.8	0.97	100.35	88.85	82.51	94.82	82.51	141.12	88.52	108.92
Malaysia (107)	201.01	-1.9	178.54	164.48	190.51	282.96	-0.9	2.44	204.80	181.33	168.39	193.52	285.52	585.26	113.56	565.26
Mexico (29)	1638.22	-0.2	1455.09	1340.50	1552.82	15243.51	-0.1	1.51	1641.41	1453.30	1349.60	1551.04	15263.36	1901.98	1335.40	1347.34
Netherlands (19)	499.11	-0.3	443.31	408.40	473.03	467.58	0.0	1.97	500.42	443.07	411.48	472.87	467.58	503.39	330.32	334.01
New Zealand (14)	74.26	-0.4	65.95	60.76	70.38	71.39	0.0	4.57	74.52	65.98	61.27	70.42	71.39	96.47	71.49	84.19
Norway (38)	339.39	-0.2	301.45	277.71	321.85	348.17	0.0	1.80	340.21	301.22	279.73	321.48	348.17	374.64	281.82	294.50
Philippines (22)	101.35	1.0	90.02	82.93	96.06	191.30	1.3	1.08	100.36	88.86	82.52	94.84	188.81	180.66	57.54	180.37
Singapore (42)	227.14	0.5	201.75	185.86	215.27	166.43	0.4	1.83	225.96	200.07	165.79	213.52	165.70	401.75	144.01	386.94
South Africa (43)	323.92	0.0	287.71	265.05	306.99	358.72	0.0	2.49	334.04	286.91	266.44	306.20	356.72	365.52	227.86	357.59
Spain (32)	391.39	-0.3	347.64	320.27	370.94	458.46	0.0	1.61	392.54	347.55	322.75	370.93	458.48	396.89	211.35	211.35
Sweden (49)	584.28	-0.1	518.97	478.10	553.75	679.93	0.0	1.72	584.76	517.75	480.80	552.57	679.93	584.76	405.00	417.32
Switzerland (31)	399.56	-0.2	354.90	326.95	378.89	374.79	0.0	1.03	400.23	354.36	329.07	378.19	374.79	404.97	253.38	254.52
Thailand (39)	28.04	-0.2	24.90	22.94	26.57	43.36	0.0	6.92	28.11	24.88	23.11	26.56	43.36	84.77	13.10	84.40
United Kingdom (208)	397.98	-0.3	353.49	325.65	377.18	353.49	0.0	2.77	399.24	353.49	328.26	377.28	353.49	399.24	275.44	277.16
USA (637)	453.73	0.0	403.01	371.27	430.02	453.73	0.0	1.41	453.81	401.80	373.13	428.82	453.81	458.37	298.79	299.79
Americas (816)	411.34	-0.0	365.35	336.58	389.84	347.39	0.0	1.42	411.34	364.20	338.21	388.68	347.36	415.23	274.59	274.59
Europe (698)	357.53	-0.3	317.57	292.56	338.85	340.71	0.0	1.97	358.52	317.44	294.78	336.78	340.71	358.52	238.44	240.06
Nordic (149)	508.27	-0.2	451.45	415.90	481.71	520.58	0.0	1.69	509.11	450.76	418.60	481.08	520.53	509.11	355.77	361.07
Pacific Basin (870)	110.72	-0.2	98.35	90.80	104.94	91.52	-0.6	1.61	110.89	98.27	91.26	104.88	92.07	158.99	95.32	128.66
Euro-Pacific (1568)	213.60	-0.3	189.79	174.78	202.44	185.32	-0.2	1.86	214.17	189.63	176.10	202.38	185.66	214.17	172.03	175.08
North America (757)	440.34	0.0	391.12	360.32	417.34	440.15	-0.0	1.42	440.39	389.92	362.10	416.14	440.16	444.77	292.34	292.34
Europe Ex. UK (487)	326.56	-0.2	290.05	267.21	309.50	324.16	0.0	1.54	327.39	289.87	269.19	309.37	324.16	328.49	213.38	214.89
Pacific Ex. Japan (390)	206.42	-0.1	183.35	168.91	195.64	205.33	-0.1	3.78	206.73	183.04	169.98	195.35	205.48	318.98	161.31	283.08
World Ex. US (1788)	217.53	-0.2	193.21	178.00	208.16	192.75	-0.1	1.85	218.02	193.04	179.26	206.02	193.02	218.02	175.30	178.42
World Ex. UK (2216)	283.77	-0.1	252.05	232.20	268.94	259.47	-0.1	1.49	284.04	251.49	233.54	268.40	259.70	284.04	211.18	211.24
World Ex. Japan (1945)	389.68	-0.1	346.12	318.86	369.32	383.78	0.0	1.71	390.06	345.37	320.73	368.60	383.77	391.71	271.90	271.90
The World Index (2425)	293.40	-0.1	260.61	240.08	278.07	287.94	-0.1	1.63	293.76	260.09	241.53	277.58	288.15	293.76	216.61	216.82

Brazil, Canada, Indonesia, Japan, Malaysia, Mexico, Philippines, Singapore and USA.

Emerging markets: IFC investable indices

[illegible]

4 pm close April 14

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yd-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 13	Apr 10	Apr 9	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9012.30	(c)	8994.86	9033.23 (6/4)	7580.42 (9/1)	9033.23 (6/4/98)	41.22 (8/7/32)
Home Bonds	105.23	(c)	105.42	105.48 (15/1)	104.92 (28/1)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3528.53	(c)	3537.19	3639.26 (3/4)	3184.38 (9/1)	3639.26 (3/4/98)	13.23 (8/7/32)
Utilities	284.90	(c)	287.37	291.18 (2/4)	262.86 (9/1)	291.18 (2/4/98)	10.53 (8/7/32)

DJ Ind. Day's High 9107.21 (9062.12) Low 8870.31 (8891.48) (Theoretical‡)
Day's high 9025.26 (9014.30) Low 8925.81 (8890.74) (Actual‡)

Standard and Poors	Apr 13	Apr 10	Apr 9	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1109.69	(c)	1110.67	1122.70 (3/4)	927.69 (9/1)	1122.70 (3/4/98)	4.40 (1/6/32)
Industrials♥	1278.56	(c)	1283.66	1306.33 (3/4)	1077.40 (9/1)	1306.33 (3/4/98)	3.52 (30/6/32)
Financial♥	140.45	(c)	138.63	140.45 (13/4)	110.63 (9/1)	140.45 (13/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	577.77	(c)	578.35	583.17 (6/4)	487.47 (9/1)	583.17 (6/4/98)	4.64 (25/4/42)
Amex Comp	738.32	(c)	740.61	747.19 (3/4)	646.41 (12/1)	747.19 (3/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1824.95	(c)	1820.24	1855.40 (3/4)	1503.22 (9/1)	1855.40 (3/4/98)	54.87 (3/10/74)
Russell 2000	479.56	(c)	480.04	486.43 (2/4)	410.89 (12/1)	486.43 (2/4/98)	123.96 (7/12/93)

RATIOS

Dow Jones Ind. Div. Yield	Apr 3: 1.56	Mar 27: 1.59	Mar 20: 1.57	Year ago: 1.97
S & P Ind. Div. yield	Apr 8: 1.33	Apr 1: 1.31	Mar 25: 1.32	Year ago: 1.83
S & P Ind. P/E ratio	30.27	30.64	30.37	21.72

US DATA

MARKET ACTIVITY

Volume (million)	Apr 13	Apr 9	Apr 8
NYSE	586.200	548.940	616.330
Amex	21.368	25.587	28.235
NASDAQ	654.293	763.780	727.392

NYSE	Apr 13	Apr 9	Apr 8
Issues Traded	3,511	3,483	3,500
Rises	1,266	1,830	1,279
Falls	1,721	1,070	1,695
Unchanged	524	583	526
New Highs	174	163	95
New Lows	25	24	25

NYSE TRADING ACTIVITY — Volume : 586,200,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
NatnsBk	10,727,000	80⅜	+4⅞
BankAm	8,869,600	91⅝	+4⅝
Cendnt	7,101,100	38⅞	-⅛
Ford	6,808,300	48⅞	+1⅛
PhMor	6,787,500	40⅛	-⅛
Compaq	5,420,400	24⅜	-⅛
LucentTec	5,374,900	67⅞	-2⅞
Travlr	5,167,400	66⅝	-1
BncOne	4,206,800	61¼	
Fst Union	4,153,200	59	+2¼

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Irish Inve	24⅝	+2⅝	+11.9
IntlSt	29⅞	+3	+11.2
Bicent A	33⅞	+3⅛	+10.4
Quaker St	22⅛	+1⅝	+8.1
Downs			
AdvMic	25¼	-1⅜	-6.2
BP Prudhoe	13⅝	-⅝	-4.8
TotalSyst	28¼	-1⅛	-4.8
Trsell	28⅞	-1⅛	-4.8

NASDAQ TRADING ACTIVITY — Volume : 654,293,000

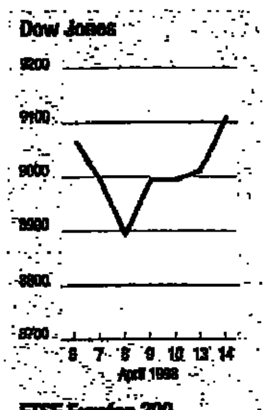
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Intel	15,802,500	76¼	+2⅛
WrldCm	12,552,900	44⅞	+1⅛
Micsft	8,281,500	89⅜	-⅜
AscendCom	8,108,900	39⅞	-⅛
Oracle	8,869,000	28⅞	+1⅛
Yahoo	7,104,200	113	-1⅛
CiscoSys	5,944,300	66⅛	-⅛
DellCmp	6,586,200	67⅝	-⅛
SunMic	4,613,700	38⅞	-⅜
AppMat	4,601,700	34⅛	-⅛

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Cybergrd	17⅛	+3⅝	+28.4
ElctRetCp	53	+7⅜	+16.8
Fastenal	48⅝	+5⅝	+13.5
JabilCir	34⅝	+3⅞	+12.0
Downs			
StaarCp	27	-3⅜	-11.7
SecDynam	23⅛	-2⅝	-10.6
Micrgrafx	12⅝	-1⅛	-10.4
StrsDyn	25⅝	-2⅞	-10.1

Dow Jones



FTSE Eurotop 300

JAPAN

	Apr 14	Apr 13	Apr 10	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	16277.32	16317.59	16481.12	17264.34	14664.44	38915.9	85.25

Day's high: 16414.08. Day's low: 16188.38.

TOKYO TRADING ACTIVITY — Volume : 296,000,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Np Steel Cp	13,590,000	220	-2
Fuji Hvy Inds	5,929,000	588	+17
Toshiba Cp	5,700,000	588	+15
NKK Cp	4,588,000	128	+2
Aichi Cp	3,544,900	798	-19
Asahi Bk	3,131,000	495	-8
Sumo Mil Ind	2,773,000	227	+2
Fujitsu	2,763,000	1475	+15
Taisei Cp	2,669,000	328	+3
Fujiya	2,428,000	330	+22

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Uchida Yoko	390	+56	+16.8
Komatsu Zen	415	+48	+13.1
Prima Meat	150	+13	+9.5
Komatsu Cns	220	+19	+9.5
Meiko	1685	+125	+8
Downs			
Yahagi Co	298	-41	-12.1
Np Steel Chm	148	-19	-11.4
Sankei Bld	352	-29	-7.6

FRANCE

	Apr 14	Apr 13	Apr 10	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3887.66	closed	closed	3888.75	2862.54	3888.75	984.61

Day's high: 3951.69. Day's low: 3867.66.

PARIS TRADING ACTIVITY — Volume : 637,214,290

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
France Tel	2,191,825	338.8	+0.5
Rhone-Poulenc	1,510,714	293.2	-1.4
AXA-UAP	1,251,445	720.8	+22.0
Bqe Nt Paris	1,089,579	538.0	+1.0
Total B	916,038	678.0	-29.0
Elf Aquit	803,646	796.0	-28.0
Sinalor Fom	658,886	588.0	+8.0
Alcatel	655,887	1157.0	+10.0
Usinor	631,756	94.2	-4.3
Lyonn Eaux	612,050	1011.0	+28.0

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Tour Eiffel	450.0	+59.0	+15.1
Grp Partouche	542.0	+52.0	+10.6
Pal Marmont	501.0	+45.0	+9.9
FIPP	236.0	+19.7	+9.1
Downs			
Finacor	42.65	-24.45	-36.4
Stph Kellen	72.0	-8.9	-11.0
Mumm et Cie	876.0	-94.0	-9.7
Elec Strasbrg	570.0	-55.0	-8.8

GERMANY

	Apr 14	Apr 13	Apr 10	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5374.78	closed	closed	5374.78	4087.28	5374.78	931.18

Day's high: 5411.07. Day's low: 5374.88.

FRANKFURT TRADING ACTIVITY — Volume : (u)

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Dresdner Bnk	1,422,842	91.9	+4.35
Lufthansa	785,251	39.7	+0.7
Commerzbank	613,879	71.9	+1.5
Daimler-Benz	592,851	196.35	+4.05
Deutsche Tel	549,397	40.9	+0.65
Deutsche Bnk	519,429	153.0	+2.0
BASF	477,711	81.0	-1.2
Siemens	398,695	121.35	-0.35
Hoechst	398,254	71.55	-2.15
Bayer	376,003	82.65	-0.35

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Wuertt Metal	350.0	+55.0	+18.8
Grammer	58.5	+7.0	+13.6
Bausch	80.0	+7.0	+9.6
Bau Boczeklus	39.3	+3.3	+9.2
Technotrans	202.0	+12.0	+6.3
Downs			
Praktl	58.5	-9.5	-13.9
Behrens	20.0	-1.4	-6.5
Herlitz Int	148.0	-7.0	-4.5

UK

	Apr 14	Apr 13	Apr 10	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	6104.1	closed	closed	6105.80	5068.80	6105.8	986.9

Day's high: 6150.5. Day's low: 6083.2.

LONDON TRADING ACTIVITY — Volume : 772,200,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Lonrho	38,093,120	102	-2
Signet Grp	31,264,050	43¾	+¼
Tamaris	16,571,230	2¾	+¼
Br Steel	15,086,170	144½	-½
BG	12,284,320	295½	-4½
Lloyds TSB	11,269,320	1075	+52½
Shell T&T	10,869,060	443	-3
Taylor Wood	10,441,280	225½	
Unilever	10,105,300	611	-19
Smithkline	9,883,892	788½	-11½

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Tandem Grp	9¾	+2¼	+30.0
Nott Forest	81½	+12	+17.3
Just Grp	1¾	+¼	+16.7
Inter Tech	75	+10	+15.4
Downs			
Dowding Mill	54	-13½	-20.0
Drew Scientic	73½	-15½	-17.4
IES Grp	66½	-11	-14.2
Aden Grp	50	-7½	-13.0

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	1116.50	1118.10	+0.80	1121.60	1116.00	95,248	343,576
Sep	-	1129.10	-	-	1119.50	1,225	10,474

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	16350.0	16300.0	-30.0	16460.0	16180.0	18,723	191,877
Sep	-	-	-	-	-	11	12,791

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	3905.0	3877.0	-21.0	3887.0	3877.0	377	38,606
May	3916.0	3863.0	-21.0	3916.0	3863.0	35	1,144

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	5339.0	5378.5	+64.5	5415.5	5314.0	22,017	113,654
Sep	5380.0	5424.5	+56.0	5460.0	5387.0	22	17,043

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	3010.00	3070.75	+67.25	3070.75	3010.00	5,904	31,540

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	7710.0	7689.0	+49.0	7743.8	7634.0	7,610	22,340
May	7682.5	7657.0	+65.0	7706.0	7612.0	3,082	8,103

WORLD MARKETS AT A GLANCE

Country	Index	Apr 14	Apr 13	Apr 10	1998 High	1998 Low	Yield	P/E
Argentina	General	22270.62	22125.98	(c)	23465.47 23/3	18257.40 2/1	3.0	18.6
Australia	All Ordinaries	2840.9	(c)	(c)	2849.99 14/4	2542.40 12/1	3.2	20.3
	All Mining	665.0	(c)	(c)	695.00 14/4	592.28 13/1		
Hungary	Bux	8970.70	(c)	8909.24	8970.70 14/4	7260.79 12/1	na	na
India	BSE Sens.	(c)	4085.93	4118.23	4194.27 7/4	3209.65 28/1		
	Crisil 500	(c)	765.78	778.01	778.81 10/4	594.38 29/1	na	na
Poland	WIG	17474.5	(c)	(c)	18582.70 11/3	13228.80 12/1	1.2	14.1
Portugal	BVL 30	6034.04	(c)	(c)	6034.04 14/4	3679.27 2/1	0.9	44.7
	PSI 20	14015.97	(c)	(c)	14015.97 14/4	9031.84 2/1		

Argentina: Strong results of banks supported sentiment.
Australia: A surge in banking stocks propel stocks to a record close.
Poland: Wig index up over 1 per cent on continuous trade.
Portugal: Market breaks through 14,000 barrier helped by rally in banking shares.

THE NASDAQ STOCK MARKET

4 pm close April 14

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close April 14

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STOCK MARKETS

Dollar weakness slows European surge

WORLD OVERVIEW

A fall in the dollar to a seven-week low against the D-Mark prompted a partial halt to the takeover-fuelled strength of European stock markets yesterday, *writes Philip Coggan.*

Monday's two big US banking mergers had earlier prompted another rally in the European financial sector, as investors speculated that the region's banks would seek to combine in order to compete. Wall Street also opened strongly, with the Dow Jones Industrial Average consolidating above the 9,000 level.

But the US dollar has in recent years been one of the most important influences on European markets, given the boost the greenback's strength has imparted to the prospects for the region's exporters.

"The dollar's appreciation explains much of the strength in continental European equities," according to Ian Scott, European strategist at Lehman Brothers. "Our house view is that the dollar/mark exchange rate will fall to DM1.65 by the end of the year. With our shorter-term valuation framework showing continental equities are overvalued, the region is clearly vulnerable to a reversal in currency trends. We retain our expectation of a near-term correction in market levels."

European markets came off their best levels of the day in afternoon trading. While several markets set all-time intra-day highs, only Frankfurt, Helsinki and Stockholm set closing peaks.

Asian markets were generally weaker, with Seoul particularly hard hit, falling 5.5 per cent. Although talks with the North Korean government broke down yesterday, the won and Korean bonds were stronger on the session and the main factor behind the equity market decline appeared to be profit-taking.

Meanwhile, the Australian market was another beneficiary of financial merger speculation and closed at an all-time high.

Latin American markets have had a disappointing start to 1998, with the IFC's regional index down 3 per cent in dollar terms.

Geoffrey Dennis, global emerging market equity strategist at Deutsche Morgan Grenfell, says he is confident that regional governments will take the necessary action to tighten policy in the face of the deterioration in their current account positions.

Growth will slow but they will avoid an inflationary boom and bust, and he believes this will be advantageous for investors in the medium term.

London market, Page 30
Currencies, Page 23

Dow powers ahead to 9,100 level

AMERICAS

Wall Street opened strongly largely on the back of good gains among cyclical shares, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average had gained 90.18 or about 1 per cent to 9,102.48. The broader market also moved ahead, with the Standard & Poor's 500 index rising 3.55 to 1,113.24.

The latest first-quarter earning results – from Eastman Kodak and Johnson & Johnson – provided mixed signals. Both sets of numbers were in line with expectations, but while Eastman Kodak shares soared $3¾ or more than 5 per cent to $70½ Johnson & Johnson slid $1 to $72¾.

"We've had some buying in anticipation of earnings reports," said Mary Farrell, senior investment strategist at PaineWebber in New York. Some shares, such as Eastman Kodak, continued to rise despite mixed earnings results: "People are looking well beyond the first quarter."

Paper and metal stocks were among the day's climbers. Among Dow stocks, International Paper rose more than 6 per cent or $3¼ to $54¼ after analysts at Goldman Sachs raised its rating to "market outperform".

Goldman also raised its ratings of Boise Cascade and Georgia Pacific. Boise's shares climbed $2⅛ or 5.8 per cent to $39⅝ while Georgia Pacific gained $3⅞ to $71⅞.

The latest economic data suggested inflation remained under control. The consumer price index was unchanged in March, while retail sales fell 0.1 per cent. Bonds, a dull market last week, regained some momentum. The price of the benchmark 30-year bond rose ¼ to 102⅔, yielding 5.911 per cent.

Financial shares were mixed on the day after two new banking mergers. A raised rating by Donaldson, Lufkin & Jenrette for PaineWebber sent its shares rising $3⅜ or 7.2 per cent to $49⅛. Bear Stearns also raced 5.9 per cent higher to $61⅞.

The technology sector rose, sending the Nasdaq composite index up 6.91 to 1,831.86. Smaller company shares gained as well. The Russell 2000 index was 3.22 higher at 482.78.

TORONTO continued to probe record highs, driven up by another strong opening for bank shares in the wake of the latest round of banking mergers in the US.

Canadian Imperial and Toronto Dominion were widely seen as potential merger partners and at noon the broad excitement across the sector had lifted the 300 composite index 54.58 to 7,710 in active trading.

Canadian Imperial rose C$2.00 to C$55.50 and Toronto Dominion C$1.80 to C$70.05. Royal Bank of Canada gained 65 cents to C$89.75 and Bank of Montreal 70 cents to C$84.40. *Bank of Nova Scotia added* C$1.75 at C$42.25.

Among industrials, Alcan Aluminium advanced C$1.05 to C$45.20 and Northern Telecom put on 65 cents to C$86.65. BCE improved 10 cents to C$56.30. Gulf Canada appeared to ignore a dull day for world oil prices, adding 10 cents to C$S.10.

São Paulo rises again

SAO PAULO continued to move higher in early trading, helped by the strong start on Wall Street and further steady gains for market heavyweight Telebras.

Brokers said the pattern of trading was mixed and largely influenced by derivatives activity ahead of today's futures expiry.

At midsession, the Bovespa index was up 70 at 12,191. Telebras added 1.4 per cent to R$147.21.

MEXICO CITY pushed ahead in light trading. Wall Street's early gains and hopes for a cut in interest rates supplied most of the momentum. Dealers said the hopes had been driven by talk of an auction of Cetes, the local T-bills.

At midsession, the IPC index was 10.44 ahead at 4,929.50.

CARACAS turned lower in line with world oil prices. The IBC index slipped 55.02 or 0.75 per cent to 7,288.34 at midsession.

SANTIAGO showed little change. At midsession, the IPSA index was up only 0.01 at 102.55.

Paris slips in volatile trading

EUROPE

Leading bourses had a mixed day. A handful of fresh records were set, but the flat dollar and a slow start after the Easter break mostly made for subdued volumes.

PARIS ended lower after a volatile session that saw the CAC 40 index trade within a range of almost 100 points. At the close, the index was off 26.82 at 3,867.66.

Where there was upside fizz it was mostly supplied by financials with the latest round of US banking mergers sparking strong demand for selected bank shares.

Société Générale surged to FFr1,351 on a combination of takeover stories and a hot rumour that the bank was unlikely to win the bidding for CIC. The shares settled at FFr1,305, a gain of FFr33 or 2.6 per cent.

Suez Lyonnaise des Eaux improved FFr28 to FFr1,011 ahead of next week's results statement and Paribas put on FFr8 at FFr682.

Insurance leader UAP Axa ended FFr22 higher at FFr720.

News that two Italian rivals had agreed to develop a joint digital platform sent pay-TV leader Canal Plus sharply lower. The shares came off FFr80 or 7.3 per cent at FFr1,020.

Hotels giant Accor shed FFr94 or 5.7 per cent to FFr1,561 and steel group Usinor was a nervous market ahead of its interim results, sliding FFr4.30 to FFr94.20.

Oils were an obviously weak feature. Total slipped FFr29 to FFr676 and Elf Aquitaine FFr26 to FFr736 after a dull day for Brent Blend, the international benchmark for oil prices.

Eurotunnel shot ahead, rising 75 centimes or 14 per cent to FFr6.10.

FRANKFURT punched to a record on the Xetra Dax which ended electronic trading 55.73 higher at 5,367.98 thanks to a strong run for computer group SAP and the banks.

Mannesmann continued recent strength ahead of today's news conference. The shares, which have been the subject of positive broker comment and earnings upgrades, jumped DM17 to DM1,535.

But SAP were the firmest feature following an upbeat sales statement. First quarter turnover rose more than 60 per cent and the shares jumped Dm49 or 5.5 per cent to DM824.

Banks moved higher in the wake of the overnight news of two big bank mergers in the US. Deutsche Bank added DM1.35 to DM152.75 and Commerzbank DM2.11 to DM72.40. Dresdner added DM7.75 to DM95.40.

Volkswagen fell foul of negative output news, shedding DM48 to DM1,460 and BMW gave up DM28 at DM2,141. Continental rose DM1.40 to DM53.90 after Lehman Brothers lifted earnings estimates for the tyre group and stepped up its target price to DM60 from DM54.

ZURICH was led higher by *financials and the SMI index* ended up 43.2 at 7,667.7. CS Group jumped SFr3.50 to SFr238.50 and Zurich Insurance rose SFr21 to SFr923, although dealers said that talk of a link between the two was "most likely wide of the mark". Among second-line cyclicals, Georg Fischer rose SFr24 to SFr550 after a recommendation by a local bank.

AMSTERDAM closed marginally higher but earlier gains led by financial shares were eroded by a weaker dollar. The AEX index closed up 5.97 or 0.5 per cent to 1,174.84.

Shares rallied in the morning as the spate of banking mergers in the US supported the financial sector. Aegon rose Fl 12 or 4.5 per cent to Fl 278.50 while Bank ABN Amro rose Fl 1.10 to Fl 55.10. Hoogovens, the steel and aluminium maker, lost Fl 4.40 to Fl 96.80. The company was downgraded last week by Goldman Sachs. Unilever fell Fl 5 to Fl 149.50.

MADRID closed higher after a volatile session led by futures trading. The general index rose 1.2 to 917.45 after a futures-led sell-off erased earlier gains.

Shares that have gained strongly over the past few weeks declined on profit-taking. Telefónica fell Pta160 or 2.3 per cent to Pta6,890.

Tabacalera, however, rose Pta180 or 4.9 per cent to Pta3,880. Investors were encouraged by the company's comments that demand for the retail tranche of its $2bn public share offering was strong.

MILAN closed higher thanks to a fresh wave of retail buying. The Mibtel index finished up 477 or 1.9 per cent to 25,342. Funds from retail investors continued to support shares, although institutional buying became selective.

Banking stocks gained ground on the mergers in the US. Banca Intesa rose L764 or 7 per cent to L11,567 while Credito Italiano rose L98 to L6,823. Telecom Italia gained L405 to L14,721 on reports of its alliance with Cable and Wireless.

STOCKHOLM jumped 1.8 per cent to a fresh record helped by a strong rise in forestry stocks. The general index rose 65.75 to 3,639.93.

Forestry shares gained 5.3 per cent on reports that North American and Scandinavian pulp inventories had posted a bigger-than-expected decline. Stora, the paper and pulp group, rose SKr9.50 to SKr135 while MoDo gained SKr21.50 to SKr245. The two shares were also supported by recommendations by Goldman Sachs.

Banking shares were also strong with Nordbanken up SKr2 to SKr58 and S-E Banken adding SKr4.50 to SKr126.50.

ATHENS continued to gain ground, although there were signs of profit-taking late in the session. Sentiment was aided by the smooth sale on Friday of 37 per cent of Macedonia-Thrace Bank. The shares ended Dr263 higher at Dr11,770 yesterday. The general index put on 10.54 to a record 2,266.35.

Written and edited by Jeffrey Brown, Emiko Terazono and Peter Hall

FTSE Actuaries Share Indices European series

April 14

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop300	1351.38	+0.60	+7.51	1.85	5.50	1367.12
FTSE Eurotop100	2887.27	+0.40	+11.46	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1216.15	+0.18	+2.13	2.71	11.73	1249.35
300 Ex-UK	1272.12	+0.84	+10.57	1.40	1.96	1277.50
300 Eurobloc	1252.44	+0.28	+3.48	1.57	2.25	1259.69
300 Ex-Eurobloc	1253.60	+0.84	+10.43	2.06	7.84	1275.36
FTSE Eurotop 300 Economic Groups						
Resources	1017.00	–1.22	–12.60	2.69	3.82	1035.36
General Industries	1178.18	+0.56	+6.79	1.73	5.42	1186.89
Consumer Goods	1188.19	–0.08	–0.92	1.54	5.32	1206.57
Services	1186.17	+0.11	+1.34	1.86	5.07	1200.88
Utilities	1348.61	+0.11	+1.53	3.27	1.84	1367.00
Financials	1437.80	+1.87	+26.42	1.70	7.51	1454.56

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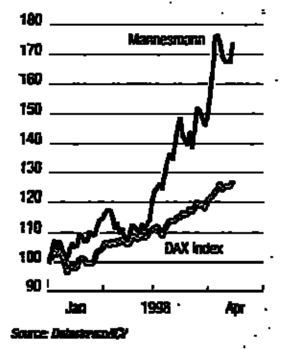
Mannesmann
Share price and index (rebased)



Source: Datastream/ICV

EMERGING MARKET FOCUS

Haven from the Asian turmoil

If there have been any winners as a result of last year's Asian currency turmoil, which hit most emerging markets, South Africa may be one.

The crisis seems to have enhanced the market's qualities as a safe haven, and the decline in the value of Asian markets has increased South Africa's weighting in the emerging market indices. The sophisticated level of corporate governance compared with other emerging markets has also helped.

Net foreign buying of South African shares was $5.4bn last year, up fivefold from 1996, while this year overseas investors have purchased a net $3.2bn. "South Africa has gained from the sorting out process of emerging markets," says Jonathan Garner, analyst at Robert Fleming Securities.

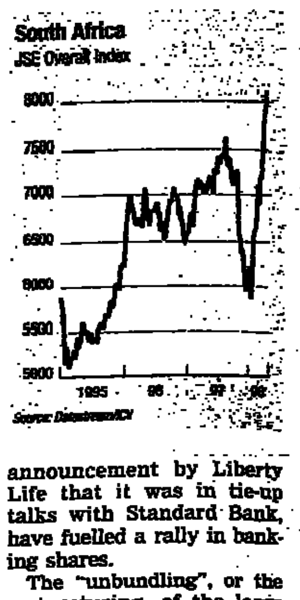
But that is not all that has been *supporting Johannesburg*, which closed up 112 yesterday at 8,048.9.

The market, which has gained almost 30 per cent since the start of the year, has been supported by the expected demutualisation of two of South Africa's largest savings institutions and by a spate of large-scale merger announcements within the banking industry. The rebound in the gold price has also helped sentiment.

The demutualisation of Old Mutual and Sanlam, which plan to convert to listed companies within 18 months, has triggered active buying of consumer-related shares on expectations of "windfall" retail spending. Since the start of January, the JSE furnishing and household sector has surged 67 per cent while retailers have gained 22 per cent.

Meanwhile, last month's Anglo American and Rand Merchant Bank announcement that they would merge their banking and insurance interests to create South Africa's largest listed company, followed by an announcement by Liberty Life that it was in tie-up talks with Standard Bank, have fuelled a rally in banking shares.

South Africa
JSE Overall Index



Source: Datastream/ICV

The "unbundling", or the restructuring, of the large conglomerates has also been well received by investors, says Graham Bell at Standard Bank in London.

The euphoria surrounding demutualisation and corporate and financial rationalisation has managed to overshadow economic gloom. With annual gross domestic product growth faltering at about 2 per cent this year, sentiment had been subdued.

Although bond yields have declined and inflation has been relatively controlled, consumer demand has been depressed while much of the economy is still affected by commodity prices.

However, next year, economic growth is expected to rise to about 5 per cent.

"Demutualisation has been a shot in the arm. Without it South Africa looks very unattractive," says one broker.

John Clemmow at Investec Securities says shares may have already factored in the effects of demutualisation. "Investors should look at sectors such as fuels, steel and cement, which are looking cheap," he says.

Emiko Terazono

Seoul drops on profit-taking

ASIA PACIFIC

A round of futures-led profit-taking swept **SEOUL** lower, pushing the Kospi index down 27.26 or 5.5 per cent at 467.63. Over the previous four sessions the index had gained almost 40 points.

Brokers said most of the selling was derivatives driven. "It's been an arbitrage day. The won was solid enough but the weak yen kept foreign investors away and sparked the profit-taking," said one dealer.

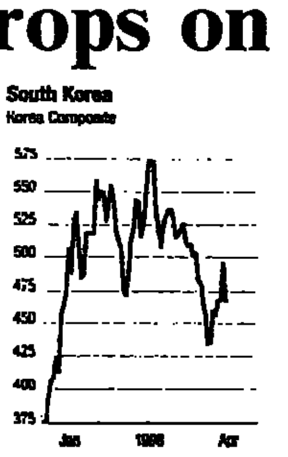
Among leading stocks, Samsung Electronics fell Won6,600 to Won73,000 and Pohang Iron and Steel gave up Won4,300 at Won62,000.

TOKYO weakened amid an absence of new market-moving data and trader caution ahead of the G7 meeting of finance officials and central bankers in Washington.

The Nikkei 225 average fell 40.26 to 16,277.32 after a 163-point fall on Monday.

The Nikkei 225 managed to climb to 16,414.09 in the morning, partly because of new hopes that the government would soon unveil large corporate tax cuts. However, futures-related sales pulled it down as low as 16,188.36 in the afternoon.

South Korea
Korea Composite



Source: Datastream/ICV

The Topix index of all first section shares fell 0.31 to 1,242.60. In Osaka, the OSE index came off 55.49 to 16,691.26. Volume on Tokyo's first section was estimated at 260m shares, up from 178.38m Monday.

Decliners outnumbered advancers 610 to 489. The losers were led by fisheries, steel and sea transport, and gainers by securities, ship building and mining.

Personal computer-related issues attracted some attention after a media report that the government is considering introducing tax incentives to purchase personal computers and other information-related equipment. NEC rose Y21 to Y1,424, and there were gains at Fujitsu, which put on Y15 to Y1,475.

HONG KONG improved thanks mostly to a strong day for market heavyweight HSBC which pushed ahead on the back of the latest round of US bank mergers.

HSBC accounted for more than 20 per cent of the day's total turnover and closed HK$8 higher at HK$247 after hitting a peak of HK$249. The Hang Seng index ended 78.32 better at 11,420.34. But there were plenty of weak spots. HK Telecom shed 10 cents to HK$15.50 and Wharf Holdings 85 cents to HK$12.90.

SYDNEY rose to a record high following keen demand for bank shares on merger hopes and talk of an interest rate cut. ANZ Bank rose 54 cents or 4.8 per cent to A$11.68 and Westpac gained 25 cents to A$11. The All Ordinaries index ended 35.1 higher at 2,840.9.

Among second-liners, Ten Network ended 1 cent lower at A$2.54 in volume of 5.5m shares after a low of A$2.47. Dealers said new shareholders following the recent public issue looked to be taking profits.

SINGAPORE continued to move lower with the Straits Times index losing 25.36 or 1.6 per cent at 1,561.55. Volume was dull with institutional interest negligible.

Property shares lost ground on worries about asset values. City Development shed 15 cents to S$7.40 and Wing Tai 7 cents to S$1.40. Positive broker comment lifted ST Computer Systems 15 cents to S$1.72.

TAIPEI fell for the fourth day running. The market moved ahead in early trading but swung lower in weak volume as the session wore on. At the close the weighted index was off 98.53 or 1.1 per cent at 8,764.58.

The heavyweight electronics sector, which tumbled 4.5 per cent on Monday, fell a further 0.9 per cent. Taiwan Semiconductor lost T$2.00 at T$145.

KARACHI added 31.32 or 2 per cent at 1,602.05 on the 100 index on selected buying of blue chips. "We're catching up with the recent strength of Indian shares," said one broker.

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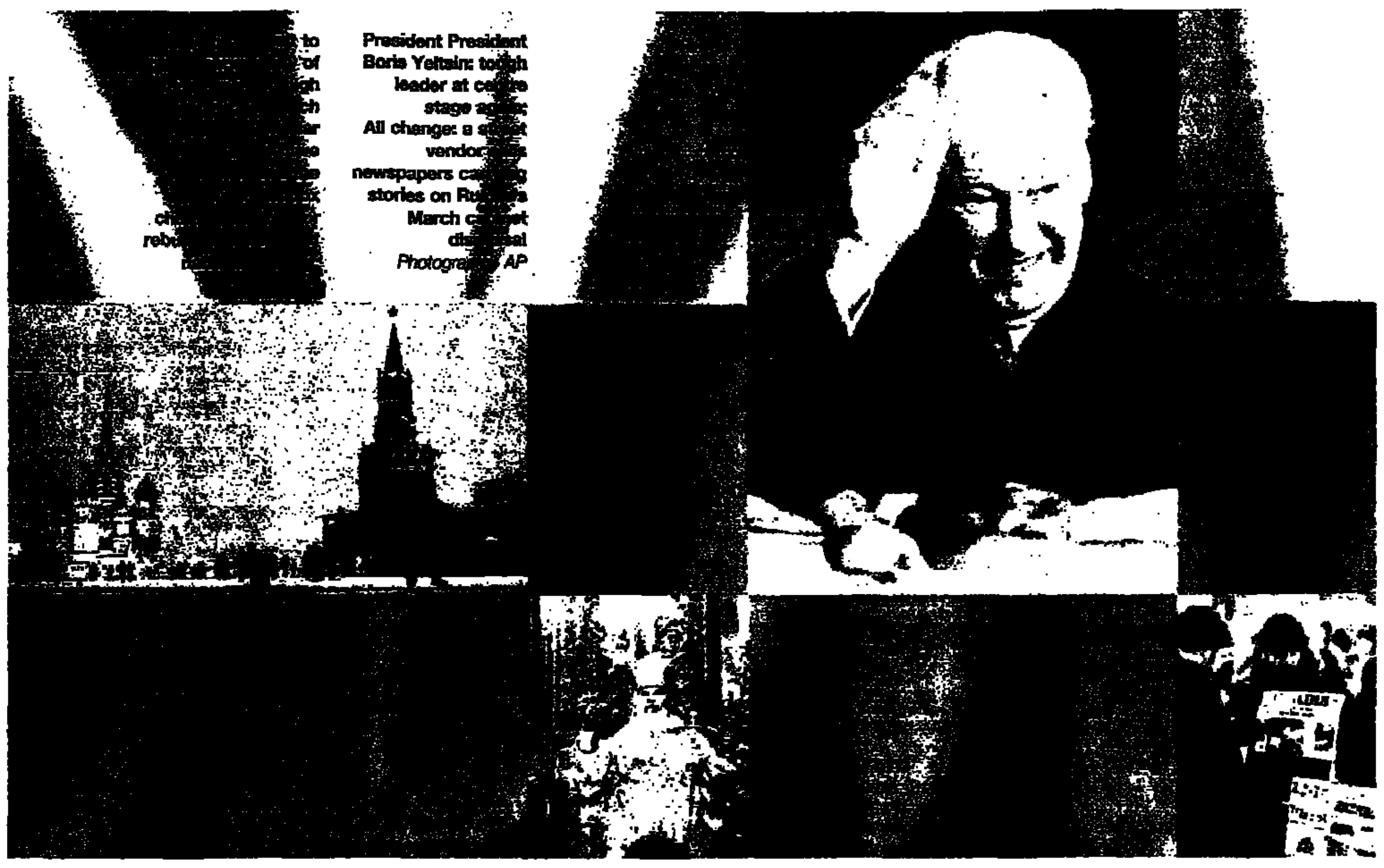
Russia


President President Boris Yeltsin: to... leader at ce... stage a...; All change: a s... vendor... newspapers ca... stories on Ru... March c... dis... Photogra... AP

Mr Yeltsin is flexing his muscles again. Yet rebuilding Russia is a not job for a single autocrat but for the whole nation, says **Chrystia Freeland**

Time to recreate the state

"I am the master here. I created the parliament so it would advise me, not order me about." These are the words of Nicholas II, Russia's last tsar. But they could just as easily have been uttered by Boris Yeltsin, the country's first democratically elected president. In one of the great ironies of modern Russia, Mr Yeltsin, the leader who ended Russia's unbroken tradition of dictatorship, is, in his heart of hearts, more than a little bit of a tsar.

Since the collapse of Communism, this contradiction between President Yeltsin and Tsar Boris has haunted Russia's political evolution. Now, as Russia slouches toward the third millennium, and presidential elections scheduled for 2000, the Kremlin chief's complicated character has again seized centre stage.

Unhampered by a physical and mental frailty that might tempt ordinary mortals into retirement, this spring Mr Yeltsin reasserted himself as Russia's dominant politician by abruptly sacking his entire cabinet. Mr Yeltsin's radical move – which left the country without a government and raised the possibility of pre-term parliamentary elections – has underscored the extent to which Russia's fragile democracy is dependent on its elected autocrat.

"One thing is clear. Yeltsin has again made himself political figure number one, everything is dependent on him," Lilia Shevtsova, a Russian political scientist, says. "He has a messianic conviction that he is the only ruler for Russia."

Over the past decade, Mr Yeltsin's self-confidence has stood Russia in good stead. It gave him the chutzpah to stand down a hard-line communist coup from the roof of a tank in 1991 and to fight the Communists in the 1996 presidential elections with such vigour that he suffered a heart attack mid-campaign.

Mr Yeltsin's autocratic streak also gave him the muscle to force through painful economic reforms, particularly privatisation and financial stabilisation. These initially unwelcome reforms laid the foundation for last year's tentative economic revival of 0.4 per cent, and have given rise to predictions that the economy will grow more vigorously in the future.

However, while Russia may have needed a messiah to lead it from the tomb of communism, the old order has finally been demolished. Russia's challenge today is to create a new one to take its place.

This is a difficult task. Russia is plagued by two major shortcomings, one old and one new. The old problem, almost as old as Russia's history as a nation, is a lack of grass-roots, democratic institutions. The new one, in stark contrast with much of Russia's past, is the weakness of the state. Rebuilding both is not a job for a single tsar-reformer, but for the country as a whole.

Start with the state. For all Mr Yeltsin's masterly posing, he presides over a state unable to fulfil many of its basic functions. Tax collection is desperately low and, after a slight improvement early this year, seems again to have sagged. As a consequence, the public finances are run with a sort of amateurish desperation, with the Russian treasury forced last year to call on George Soros, the western financier and philanthropist, to tide the country over as it awaited revenues from a eurobond.

Even physical coercion, the most fundamental monopoly of a state, has slipped out of the government's control. In Moscow last autumn an entire unit of policemen were discovered to be moon-lighting as private assassins.

Unable to rely on a police-force that can be bribed to kill the citizens it is pledged to protect, Russia's wealthiest citizens have built up their own private armies, commanded by ex-KGB officers, in order to defend their windfall fortunes.

"Russia is a state with a 400-year history of a strong, central authority," says Mikhail Friedman, head of the Alfa Group, one of Russia's leading financial-industrial empires. "Only thanks to this authority did Russia survive as a unified state. Now, for the first time in our history, we are suffering through a period of weak central authority. The state is demoralised."

If the state is demoralised, then society is suffering from clinical depression. Systematically broken into a mass of disconnected and powerless individuals by seven decades of communism, Russia today lacks the institutions that make up civil society.

Trade unions are weak, under-financed and distrusted, political parties are either small or subservient to the Kremlin and the media is in the grip of the country's financial barons. All of this means that ordinary Russians have almost no levers with which to influence their rulers.

As Grigory Yavlinsky, leader of Yabloko, Russia's liberal opposition, explains: "The lack of civil society, the lack of democratic institutions, has become one of our most important problems. The government was extremely passive in creating civil society."

The combined weakness of the Russian state and Russian society has created fertile ground for the emergence of what Mr Yavlinsky calls "strange flowers". Without the restraint of a strong central authority or of powerful, mass-based democratic institutions, Russia is ruled by a haphazard collection of individuals and institutions lucky and cunning enough to take advantage of the power vacuum.

Most prominent among them are the Moscow-based financial and industrial magnates who bank-rolled Mr Yeltsin's re-election in 1996 and have since emerged as one of the most important forces in Russia. In public, these magnates have taken to denying their influence, but in private they refer to one another as "oligarchs" and they have a voice in the most decisive issues of state.

Russia's charmed circle also includes the heads of monopolies still nominally controlled by the state, such as Gazprom, the natural gas giant, and the country's mighty provincial governors, whom Mr Yavlinsky compares to "feudal lords".

All of these strongmen derive their power from the weakness of the institutions of state and society. As Mr Friedman, generally counted one of the "oligarchs", puts it: "The influence of the bankers begins where the fulfilment of the laws ends."

For many ordinary Russians, this is a sad outcome to their euphoric revolt against communism in 1991. According to Vitaly Markov, leader of a coal miners' union in the Kuzbas, a Siberian region whose anti-communist protests helped push Mr Yeltsin into the Kremlin, he and his comrades feel betrayed.

"Many people feel deceived now. For a small nest of people life has improved, but for most of us it has got worse," he says, black-faced from the mine and shivering slightly in the Siberian cold. "Our union supported Yeltsin, but what kind of a democracy can you call this? They gave us freedom of speech, but it doesn't mean anything. They don't listen to us."

Yet, frustrated as they are, even the losers in Russia's post-communist transition have been transformed by the greatest gift of the Yeltsin revolution – freedom. Russia's democratic institutions may be ineffective, and the state may be unable to perform its most basic functions. But this feebleness has one precious fringe benefit. For the first time in their modern history, Russians are no longer enslaved by an authoritarian state.

The big question Russia faces today is whether it will be able to use this freedom to enrich the lives of all of its citizens, or become, as some liberals fear, a sort of Marxist parody of capitalist democracy, with a small oligarchy of moguls lording it over everyone else.

Continued on page 12

In this survey

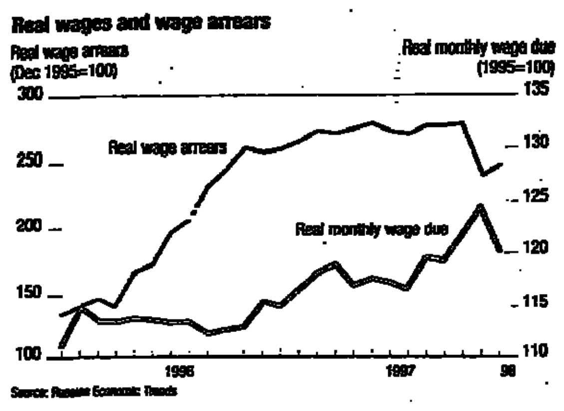
Editorial production: Sarah Murray

THE ECONOMY • by John Thornhill

Re-examining the state's role

Reformers say government must control capitalism and redistribute its fruits

Real wages and wage arrears



The young market reformers who sprung to power after the collapse of the Soviet Union used to argue – with grim humour · that they only had to accomplish two tasks: to rebuild the private sector and to rebuild the public sector.

More than six years later, they may reflect that the former has been a lot easier to achieve than the latter but that both challenges must be overcome if a true market economy is to function in Russia.

In many respects, the reformers have made remarkable progress in smashing the Soviet-planned economy allowing the private sector to break through the rubble.

The bulk of state enterprises has been privatised, the foreign trade regime has been liberalised and runaway inflation has finally been tamed. After a decade of contraction, Russia's gross domestic product rose by 0.4 per cent in 1997 and may climb to 2 per cent this year.

But the omissions in the reformers' handiwork are still experienced by millions of long-suffering Russians every day. The state's difficulties in collecting taxes have resulted in spasmodic payments to pensioners, soldiers, teachers, coal miners. The trade unions claim public and private sector wage arrears have grown again this year reaching a record Rbs57bn ($9.4bn). Not only is this a massive social injustice; it also erodes popular support for the very concept of "market reform".

The absence of a proper bankruptcy regime has also contributed to the build-up of inter-enterprise debts within the economy, estimated to be $130bn (or equivalent to about 25 per cent of GDP), and the crippling prevalence of barter trade.

The lack of an impartial legal regime has deterred investment and encouraged crime. A corrupt and obstructive bureaucracy has stifled the entrepreneurial instinct leading to a low rate of new business formation.

The chief challenge confronting Russian economic reform is therefore to reinvent the functions of the once-omnipresent state.

The reformers argue that a slimmer, smarter state must play a greater role in regulating Russia's unbridled capitalism and help redistribute at least part of the market's fruits more carefully to the most disadvantaged. It is only by creating a just and supportive public sector that the private sector can ever truly blossom and win the confidence of both the domestic populace and foreign investor.

That challenge has certainly been acknowledged by the government in principle, however hard it may be to implement in practice. Before his dismissal from the government last month, Anatoly Chubais, Russia's leading reformer throughout the period, said that it was now essential for the state to strengthen - though not broaden – its role in the economy.

"The principal, basic functions of the state in Russia are performed badly, unprofessionally, corruptly," he said. "Therefore I consider it absolutely essential that the role of the state should be sharpened, strengthened, fortified, defended.

"Who but the state can collect taxes? Who but the state can implement anti-monopoly policies? Who but the state can fight crime? Who but the state can fight corruption? In all these spheres the situation is very far from good, very far from satisfactory."

Mr Chubais may have articulated those concerns most eloquently within the government, but Boris Yeltsin, Russia's president, appears to have grasped them more instinctively.

In reshuffling his government last month, Mr Yeltsin tried to bring to the fore young technocratic managers who could implement the minutiae of micro-economic economic reforms rather than wage the great ideological battles that Mr Chubais had fought.

"Decisive reforms are needed everywhere, in military as well as administrative reform," Mr Yeltsin said, when appointing the 35-year-old Sergei Kiriyenko as his prime ministerial nominee.

"Social questions which have not been solved must be tackled immediately. We must not allow wage arrears to pile up," Mr Yeltsin said.

"New approaches are needed in work with federal ministers, in contacts with regional leaders. The public health system, education, and culture need special care."

But the government's ability to improve any of these areas will depend critically on its success in getting its public finances under control.

For years, government finances have been caught in an ever-tightening vice as the economy has continued to shrink and expenditure cuts have grown ever more painful. But at the same time the government has been steadily accumulating new debts, which are becoming increasingly costly to service.

To buy time for reforms, the government has taken on big loans from the International Monetary Fund and World Bank and started issuing domestic Treasury bills and, most latterly, eurobonds. By the middle of 1997 the stock of domestic debt built up over the previous year amounted to 12.5 per cent of GDP.

In theory, that should prove perfectly manageable for such a naturally rich country as Russia; in practice, it was the equivalent to total federal budget revenues over the same period.

The inherent fragility of Russia's public finances was driven home in late 1997 as international capital markets trembled in the wake of Asia's financial crisis. The central bank was temporarily forced to push up interest rates to 42 per cent in order to defend the rouble but such a policy could clearly not be sustained for long.

The risk was that high real interest rates would crowd out private sector investment delaying economic growth, increase the state's borrowing costs, and lead to an unsustainable snowballing of debt.

For the moment, that danger appears to have been averted – assuming that events in Japan do not take a particularly ugly turn.

Sergei Dubinin, governor of the central bank, argues that Russia has weathered the worst of the storm and has been steadily lowering interest rates as investor confidence has returned. He estimates that interest rates could fall to less than 17 per cent by the end of year encouraging a pick-up in the economy:

"We are really satisfied with the fact that we have been able to overcome the consequences of the financial crisis which happened in world markets," he says, highlighting the ease with which Russia was able to place a 1.25bn D-mark eurobond last month.

While the central bank has been showing the mettle of its monetary policy, the finance ministry has also begun toughening up Russia's fiscal stance. Alexei Kudrin, the first deputy finance minister, has agreed a package of expenditure cuts with Stanley Fischer, deputy managing director of the IMF, amounting to 2 per cent of GDP.

If implemented effectively, this "Kudrin-Fischer" plan could result in Russia running a budget surplus (before interest rate payments) this year for the first time since reforms began.

However, the finance ministry has yet to reckon with the political backlash that could result from its plans to cut back the public sector workforce. Mr. Yeltsin, who had previously backed the Kudrin-Fischer plan, has subsequently described the finance ministry's intention to cut 208,000 public sector jobs as either "an invention or a provocation".

Mikhail Zadornov, finance minister, says that there must be a radical longer-term overhaul of public finances if Russia is not to remain vulnerable to the swings in international investor sentiment. A simpler, fairer tax code, which Mr Zadornov hopes will be adopted by parliament by July, will prove an important means to this end.

At present, the tax authorities say that less than 17 per cent of all companies pay their taxes in full and on time. Of the 2.6m enterprises registered by the tax authorities at the end of 1996, one third were classified as "dead" but had not yet been formally wound up.

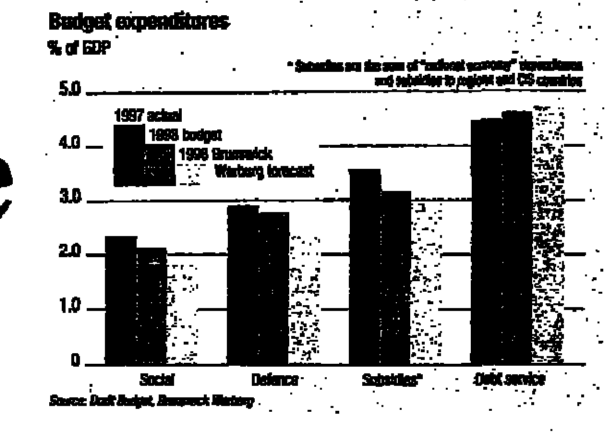
Yet the reluctance of companies to pay all their taxes is perhaps understandable: Moscow-based companies, for example, have recently been required to submit 23 different quarterly tax returns.

The finance ministry must also somehow address a more basic psychological and cultural problem: Russians do not pay taxes because they do not believe the state provides value for money; yet the state cannot demonstrably improve public services without sufficient money.

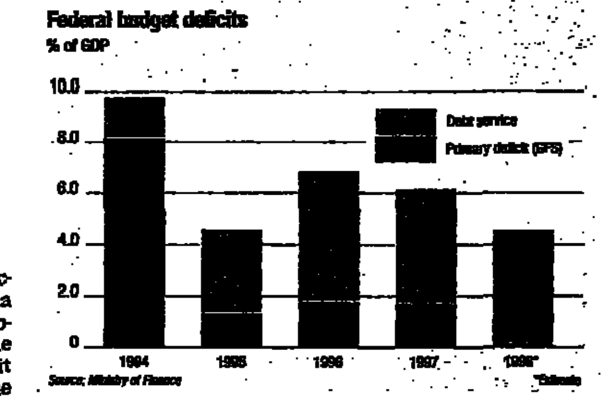
Sergei Vasiliev, the government's deputy chief of staff who is helping prepare the agenda for the incoming administration, identifies four immediate challenges: to resolve the wage arrears crisis; to overhaul the budget; to implement a new tax code; and restructure social transfer payments.

Mr Vasiliev says none of these tasks will be easy to accomplish; all require a qualitative improvement in the functioning of the state. But the incoming government must take the tough decisions in 1998, he argues, before parliamentary elections roll around again next year.

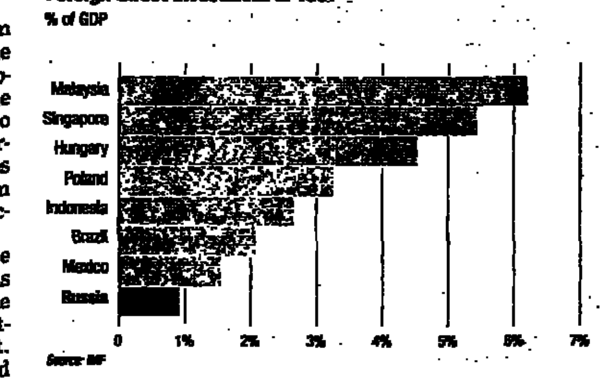
Budget expenditures



Federal budget deficits



Foreign direct investment in 1997



Future captains of industry? Students at an elite new Moscow business school. State functions must be reinvented in order to regulate Russia's unbridled private sector *Alexander Zemlianichenko/AP*

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xander Lebed, retired general; Boris Nemtsov, first deputy prime minister; Grigory Yavlinsky, liberal reformer; President Boris Yeltsin; Victor Chernomyrdin, former prime minister; Gennady Zyuganov, Communist boss; and Yuri Luzhkov, Moscow mayor Graphic: Andrew Burns

OLITICS • by Tony Barber

Contenders poised to leap into the fray

The race for the Kremlin has acquired greater significance since the cabinet purge

Russia's next presidential election is more than two years away, but its significance for the nation's political stability and economic development has become greater than ever since Boris Yeltsin shook up his government last month.

The central question, still lacking a clear answer, is whether Mr Yeltsin will seek a third term in office or whether the presidency will pass to one of the other contenders poised to leap into the fray.

Mr Yeltsin indicated at the end of March that he did not want a third term. If he changes his mind, he will need to skirt around Russia's 1993 constitution, which limits presidents to two successive terms.

There are few doubts that, if he decides to run for re-election in June 2000, the Constitutional Court will give him the green light. The court has little record of resisting Kremlin initiatives, and Mr Yeltsin personally selected many of its members.

Yet if the president retires on schedule, or if ill-health prevents a re-election campaign, then the field will be open to candidates including Victor Chernomyrdin, the former prime minister, Yuri Luzhkov, the mayor of Moscow, Boris Nemtsov, the first deputy prime minister, Gennady Zyuganov, the Communist leader, Alexander Lebed, the retired general, and Grigory Yavlinsky, the liberal westerniser.

It is also possible that some other politician, now on the sidelines, will be propelled to centre stage with the backing of Mr Yeltsin, the Kremlin and Russia's billionaire businessmen.

Six months before the presidential contest, Russia will hold parliamentary elections that will offer some insight into the strength of the rival camps. The widespread expectation is that the Communists, who hold 139 seats in the 450-seat State Duma, or lower house, *will remain the largest* party. However, the Kremlin is considering an election law change that could upset such forecasts.

At present, half the Duma's members are elected on nationwide party lists and half in electoral districts. If, as proposed, the party list system were abolished, the Communists' position would almost certainly be eroded. So would that of the ultra-nationalist Liberal Democratic Party, almost all of whose 50 seats come from the party list system, and indeed that of other parties such as Mr Yavlinsky's liberal Yabloko bloc.

All politicians realise, however, that the presidency is the big prize, for it is there that real power in Russia rests. To win this prize, a candidate needs national popularity, campaign money and influence over the media.

Mr Chernomyrdin, sacked as prime minister on March 23, was once seen as Mr Yeltsin's *most likely successor.* But his unceremonious dismissal suggests that he may not be able to muster enough political and financial support for an effective campaign.

Much depends on whether the so-called "oligarchy" of business tycoons and bankers who bankrolled Mr Yeltsin's re-election in 1996 believe that Mr Chernomyrdin, 60, is electable. Boris Berezovsky, an oil and media baron, said on March 29 that he viewed Mr Chernomyrdin's decision to run for the presidency "absolutely positively".

But some Russian political analysts are not so sure that the former prime minister commands the oligarchy's support. Andrei Piontkovsky, director of the Strategic Studies Centre in Moscow, said of Mr Chernomyrdin: "He has some virtues but one very serious liability: he is not electable."

As the former head of Gazprom, the world's largest gas *company, Mr Chernomyrdin* has intimate connections with an institution that can finance his campaign and is steadily expanding its media interests.

Gazprom bought a 30 per cent stake last year in the NTV television network, which can reach an audience of 120m, and it recently set up a holding company, Gazprom Media, with the explicit intention of boosting its image and gaining political influence. However, now that he is outside the government, Mr Chernomyrdin can no longer count on Gazprom's automatic support.

As prime minister, Mr Chernomyrdin was to many Russians a symbol of stability in a world changing at disconcerting speed. But few question the fact that he lacks Mr Luzhkov's energy and bulldozing talent for getting things done.

Mr Luzhkov, 61, has yet to make clear whether he will run. But he is a proven winner – so popular in Moscow *that he won re-election as* mayor in 1996 with almost 90 per cent of the vote.

Mr Luzhkov would find it easy to tap big business for a presidential campaign. He also has friends and power in the media. While transforming Moscow from a bleak citadel of Soviet stagnation into a riotous boomtown, Mr Luzhkov has not neglected to cultivate his personal image, once even allowing a perfume factory to develop a scent in his honour named "Mer" (Mayor).

He has also sought broader national support by speaking out on behalf of ethnic Russians in Latvia and suggesting that Russia should maintain a claim to Sevastopol, the major port of Ukraine's Crimean peninsula. Yet as a born-and-bred Muscovite, with practically no political experience of the provinces, Mr Luzhkov may lack sufficient appeal across Russia's vast expanses to be assured of victory.

Until the government *shake-up last month,* Mr Nemtsov was seen as something of a fading star. His many enemies in the Kremlin and business world had proved more adept at the byzantine intrigues that often substitute for politics at national level.

Yet unlike his former fellow first deputy prime minister, Anatoly Chubais, Mr Nemtsov was not sacked by decree from the government. It cannot be ruled out that Mr Yeltsin will throw his support behind the young reformer from Nizhny Novgorod.

With the top two contenders going forward to the decisive second round, the likeliest opponent to the Kremlin's "official" candidate, whoever that may be, will be a Communist, perhaps Mr Zyuganov, 53.

Yet the Communists will have difficulty in expanding their support significantly beyond their natural electoral base of about 30 per cent. Moreover, as in 1996, *the Kremlin machine and* the "oligarchs" will assuredly do all in their power to minimise Communist access to the media.

The wild card in the election may be Mr Lebed, who came third in the first round in 1996. He knows he must win election as governor of Krasnoyarsk at the end of April in order to generate momentum for a serious presidential bid.

As for Mr Yavlinsky, his declared ambition is to finish third, doubtless so that he can bargain his support for a role in the winning candidate's administration. At the moment, if Mr Yeltsin stays out of the race, the winner cannot be named with any certainty.

BANKING • by Simon Davies

Asia provides a sobering lesson

Russia needs a system that can provide long-term investment for the economy

One of the lessons of the crisis that tore through south-east Asia in 1997 was the need in developing countries for a properly functioning banking system. Asian banks pumped the region's abundant savings into excessive property development, market speculation and manufacturing capacity, building a bubble which burst spectacularly.

Investors in Russia should take note. The banking system is a hybrid built from the wreckage of communism with neither the capital nor the credit skills to provide long-term investment for the economy. At one stage, 40 new banks were being set up per week, with a peak of 2,500 banks in the country. And yet bank assets still represent less than 25 per cent of gross domestic product, compared with more than 50 per cent in the US and a far higher percentage in most of Europe.

At present, the only bank with substantial access to Russian savings is the old state savings institution Sberbank, which benefits from its role under the communist regime and the fact that it is the only bank with deposit insurance. But it has been slow to build up a long-term loan portfolio or offer a broader range of services to its customers.

The other banks grew largely by financing the ambitions of Russia's new breed of big businessman, operating as the banking arms of Financial Industrial Groups (FIGs), Russia's version of Korean chaebol. They made money early on from the depreciating currency and the evolution of the high yielding Russian government bond (GKO) market.

Some banks got rich by being selected to hold lucrative government accounts. Then came the shares-for-loans deals where the banks picked up state shares in big energy and commodity companies at bargain basement prices.

Meanwhile, long-term lending to Russian industry has remained minimal.

But the good times seem to be over. Now banks like Oneximbank and SBS-Agro are starting to build up retail bank networks to gain the deposit base to fund long-term lending.

Former deputy prime minister Anatoly Chubais, said in 1997: "For banks, there remains only one path: investment in the real sector. Those who are late to realise this will lose, and those who do not realise it will perish financially."

And many have perished. The Central Bank revoked over 300 licences last year, and expects to do the same again in 1998. "Weak banks, small banks and those that cannot find a niche, are either merging or going into liquidation," says Denis Kiselyov, deputy chairman of the central bank.

The new minimum capital requirements of Ecu1m ($1.09m) for existing banks would mean the end of another 700 banks, although some will survive through capital increases before the January 1 deadline.

Andrei Kostin, chairman of Vnesheconombank, describes the head office of a leading commercial bank he visited in 1993 which had a kick boxing gym below it and a stench of fish throughout the building. "And I think that reflected the level of service," he says.

He says that consolidation is helping change this. "In a few years time there will be 10 leading banks which more or less control the Russian banking system."

But Russia has a long way to go before it can claim to have a solid, well capitalised banking system.

"We need an independent central bank function," says James Kilzer partner at Price Waterhouse Moscow. "And parameters put around the commercial banks to make them operate like commercial banks. But that is going to take some time."

The defence of the rouble has taken its toll, forcing up interest rates and squeezing growth. This has put pressure on short-term lending portfolios. The extent of these problems has yet to emerge, given limited recognition of bad loans.

There are still limited credit analysis skills within the banks and external problems, such as feeble protection for creditors.

Two key issues could help. The central bank is promising that a corporate bond market will be launched in the first half of this year, with most of Russia's corporate behemoths committing to issuing bonds, probably of three to six months' duration in the initial stages.

Given that they do not have the capital or structures to play a more direct role, says Sergei Aleksashenko, deputy governor of the central bank, "these instruments are how the banks can start to play an intermediary role between savings and investment".

Another positive development would be the development of a mortgage market, providing a secure base for long-term lending. Sberbank has moved into the mortgage market with the support of Fannie Mae. But Mr Kilzer that Russia is "five years away from the development of a real mortgage market".

Ultimately, channeling long-term savings through the banks and the evolution of long-term bank lending depends on widespread expectation of political and social stability. Given the recent political volatility, that could be some way off.

PROFILE Dmitry Vasiliev, chairman of the Federal Securities Commission

Fighting with sword and shield

In a country where politics and business have become inextricably entwined, Dmitry Vasiliev is in an uncomfortable position. The 35-year old chairman of the Federal Securities Commission is a political appointee who has set out to impose order on the wild frontiers of Russia's capital markets.

On one hand, he has had to fight with the powerful so-called oligarchs, Russian bankers who have taken control of large swathes of the economy through the privatisation process. On the other, there is the central bank, which has been keen to take on many of the Commission's responsibilities.

"It is not an easy political task standing up against big business, and undoubtedly pressure is brought to bear on the regulators," Mr Vasiliev says. "In the west, we are criticised for insufficient regulation. In Russia, we are accused by the press of squeezing the market."

Political pressure has come from several directions. Mr Vasiliev boasts that his regulators had been policing the far reaches of the Russian securities industry, but the Commission has recently been hit by attempts to cut its budget. "Now, I have insufficient funds for business trips to the regions by my employees," he complains.

Mr Vasiliev remains dissatisfied with the level of authority he has for policing the markets. And he became bogged down in a row with the central bank over the distribution of responsibilities, with the central bank taking on the right to licence market professionals.

Nonetheless, the Commission has had some significant recent victories, bringing praise from US financier George Soros. Its actions resulted in the reversal of a move by Yukos, the Russian oil company, to facilitate asset transfers from its subsidiaries and the cancellation of a proposed convertible bond issue by Sidanco that would have greatly diluted minority shareholders.

This had pitted Mr Vasiliev against two of Russia's most influential financiers, Mikhail Khodorkovsky and Vladimir Potanin. But some investors suggest that even these victories may have had only a little to do with the influence of the Commission.

Certainly, Mr Potanin, whose Oneximbank controls Sidanco, is keen to bring western partners into his business empire and i therefore sensitive to criticism fom foreign investors such as Mr ioros, a co-investor in Svyazinves. Moreover, Mr Vasiliev's politicalconnections may have sufferedin the recent cabinet reshuffle, i which his former boss and mentr, Anatoly Chubais, was removed.

But he is well aware of th ongoing challenge. "New methds for infringing shareholder rigts are always being invented. Th is a sword and shield operatio," he says. The sword and shiek were symbols of the KGB, but MrVasiliev has some way to go befre he can claim to strike the samelevel of fear into the hearts of Rusia's business elite.

Simon Daves

THE STOCK MARKET • by Simon Davies

Past form demands scepticism

Little evidence of the benefits of restructuring is feeding through into earnings

The Russian bear is in the ascendant, dragging what was easily the best performing stock market for most of 1997 down by more than 40 per cent since its peak last August.

The rally was started by the re-election of President Boris Yeltsin in 1996 and the realisation that a lot of Russia's privatised industries were trading well below what were relatively easily identifiable asset values.

But, says Fredrik Lekman, chief investment officer at the fund management arm of MFK Renaissance, "the surge in share prices up to August 1997 took away the dirt cheap assets. At current levels, the market is probably trading at fair value on an asset basis. The next bull run has to be driven by macro-economic recovery, translated into lower interest rates and earnings growth". It will also require a substantial rebuilding of the systems within the Russian market, both in terms of regulation and physical infrastructure.

The trading system is fully automated, and has coped with increasing volumes and high volatility, with only a few lapses. But, says Christopher Granville, head of research at United City Bank, "all the settlement is still manual. Once the deal is done, you are back in the stone age. But it works".

Efforts are being made to improve the settlement and custody system. But these are being hampered by politics, with in-fighting between the Central Bank and Federal Securities Commission over the division of responsibility towards the securities markets and a tussle between the Central Bank and the mayor of Moscow over which of Moscow's two exchanges, will emerge as Russia's pre-eminent market.

The other issue has been regulation. "If you take a snapshot of the Russian markets at any one time, you will always find plenty to offend western investor sensibilities," says Charles Harman, managing director at Donaldson, Lufkin, Jenrette. "But if you look at the trend line, it has made a remarkable transition."

There have been a number of big rows over abuses of minority shareholder right. And while the FSC appears to have persuaded Sidanco and Yukos, the two large oil companies, to revise recent controversial proposals, concerns remain.

"Progress could have been much better," says Florian Fenner, director of Brunswick Capital Management. "It is like everything in Russia, implementation is the problem, not the rules."

But the issue that will drive the stock market is not the infrastructure – although improvements might attract more western investors – but evidence that the reform process is secure and will achieve faster levels of growth.

In this regard, the recent cabinet reshuffle does not look reassuring. "After weeks of uncertainty, we will probably have a government with Sergei Kiriyenko as prime minister," says Mr Granville. "But this will probably not be a fantastic improvement on the formula we had before. And a high price will have been paid, because what this country needs is stability."

The country has already paid this price with bond yields rising to reflect a higher risk premium for investing in Russia.

But with yields on government bonds running at almost 15 per cent more than inflation, they seem likely to come down as the new prime minister is installed. And this would provide some support for the stock market. So too will any recovery in the oil price, given that oil companies account for about half the stock market value.

There is also hope that more of Russia's savings will be channelled into the market. "It is estimated that $20bn is sitting in Russia in hard cash," says Mr Lekman. "The dream for the mutual funds is to take a fraction of that."

That could have a big impact on a stock market with a capitalisation of les than $60bn. But for a sutainable recovery, investors will want evidence that management promises of restructuring benefits are feeding into earnings.

Mr Harman argues: "Companies tend to be fairly ruthless about reducing the cost base, and reducing staff. A lot of the things that needed to be done by businesses are being done. It is fairly naked capitalism out there".

But there has been little evidence of this in earnings. Moreover, the history of post-communist capitalism in Russia has been one of haphazard accumulation of prime assets by a handful of powerful financiers.

At some stage, these portfolios will be rationalised so that the financial industrial groups become more focused conglomerates. If there is evidence that the value creation from such restructuring will be fairly distributed among shareholders, the upside for the market could be considerable. But according to past form, some scepticism is called for.

A bear

Reform through ranks

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FOREIGN POLICY • by Tony Barber

A bear hug for new friends

Lingering suspicion of the US continues to influence Russia's choice of allies

Within hours of President Boris Yeltsin's dismissal of his government last month, Russia's highly experienced foreign minister, Yevgeny Primakov, was at pains to stress that there would be no changes in foreign policy. "We will defend our interests, without sliding towards confrontation," he said.

If the policy is to remain the same, that is doubtless because the problems facing Russia will remain largely the same, too.

Almost seven years after the end of Soviet Communism, the collapse of empire is broadly accepted by Moscow's foreign policy establishment – if not by parliament's dominant Communist and nationalist factions – as the practical reality that defines the scope of Russian foreign policy.

The main challenge now is how to find a way of counterbalancing the global power of the US, without allowing relations with Washington to deteriorate into confrontation.

Russia considers that the US throws its weight around the world too much, and so is accordingly keen to build up relationships with influential countries, including China and France as UN Security Council members, that often appear to share this view.

For Russia, the lesson from the wars and diplomatic crises of the 1990s in the Gulf and former Yugoslavia is that the US, despite its promises, has not treated Moscow as an equal partner in the post-Cold War age. Instead it has sought to humiliate Iraq, once a Soviet ally, and has put pressure on Serb-led rump Yugoslavia, a fellow Slavic Orthodox nation and, with Greece, Russia's most sympathetic Balkan friend.

Most seriously of all, the US has pressed ahead with Nato's expansion into central and eastern Europe despite what Russia believed was a firm assurance that, if Moscow withdrew its forces from former Warsaw Pact states and permitted Germany's unification, enlargement would not go ahead. In short, the Russians are no longer sure that close co-operation with the US reaps the right results.

One difficulty with Russia's approach is that it has created an impression of Moscow as an occasionally prickly partner with some peculiar choices as friends.

To some extent, Russia's decision to act as a broker in the recent US showdown with Saddam Hussein over UN weapons inspectors could be partly justified by the support that Moscow garnered in the Arab world for its show of sympathy towards an Arab country being "bullied by Uncle Sam".

But it is harder to see what Russia stands to gain by standing up for Slobodan Milosevic, the Yugoslav president, in his disputes with the US over Bosnia and Kosovo. "Unfortunately, we have grown used to the logic that says an enemy of Washington is our friend," says Konstantin Eggert, a foreign affairs expert at the newspaper Izvestia.

Mr Yeltsin, in his state of the nation address last February, boasted: "Today it is clear to all that without Russia it is impossible to reach productive decisions on thorny international issues, be it the Bosnian problem, the Arab-Israeli conflict or the Middle Eastern situation."

Liberal domestic critics of the Yeltsin administration's foreign policy would put this another way. They argue that Russia is picking the wrong quarrels when it defends Iraq and Serbia against the US.

On the other hand, there is support across the whole Russian political spectrum for the view that Moscow should not tolerate further expansion of Nato, especially into Estonia, Latvia or Lithuania. "The entry of the ex-Soviet republics into Nato would destabilise the situation in Russia – and that would be bad for the US, and bad for Europe," says the young liberal reformer, Boris Nemtsov.

The Russian view is that Nato's new members – the Czech Republic, Hungary and Poland, each due to join next April – and other alliance hopefuls want membership as an insurance policy against a possible resurgence of aggressive Soviet-style behaviour. Understandably, Moscow rejects this motive as casting unjust aspersions on post-communist Russian foreign policy.

Even Russian liberals say such fears in countries on Russia's western borders may turn out to be self-fulfilling prophecies, particularly if a nationalistically inclined politician such as Yuri Luzhkov, mayor of Moscow, were to replace Mr Yeltsin as president.

The Communist leader, Gennady Zyuganov, gave a hint last month of what the Baltic states could expect if he ever rose to power. "A fascist regime has been reviving in Latvia, and it's the most loathsome one can imagine," he growled.

Despite such outbursts, some experts say Moscow has largely come to terms with Nato's first wave of expansion. "We perceive signs of realism in Russian policy, although in relation to central Europe this is still a weak trend which needs active cultivation," says Poland's foreign minister, Bronislaw Geremek.

In US eyes, a dose of realism would not go amiss in the State Duma, or lower house of Russia's parliament. The Duma has not only worked itself into a lather over Nato enlargement and the supposed discrimination against ethnic Russians in former Soviet republics, but is holding up ratification of the US-Russian Start-2 disarmament treaty.

The accord, which would reduce each country's nuclear arsenal to 3,500 warheads, was to come into force in 2003. Now that has been extended until 2007. The delay means the US and Russia cannot start talks either on a Start-3 treaty, which would cut each side's warheads even more, or on a wider arms control agenda including nuclear proliferation.

Mr Yeltsin can point to some successes: a blossoming relationship with China, improving ties with Japan, membership of the Asia-Pacific Economic Forum and, last month, the first annual trilateral summit with the leaders of France and Germany.

But Russia still believes that its size, power and experience should translate into greater influence on the international stage. Until that happens, the suspicion will linger in Moscow that the US in particular is not treating post-Communist Russia with the respect it deserves.

Mr Yeltsin with China's President Jiang Zemin last year: Russia is keen to build relations with countries that appear to share its view of the US David Brauchli/AP

THE MILITARY • by Tony Barber

Reform rattles through the ranks

Structural change in the armed forces is at last being taken seriously

Humiliated in Chechnya, burdened with outdated equipment and plagued with problems ranging from draft-dodging to food shortages, the commanders of Russia's armed forces could be forgiven for thinking that life after Communism is a bitter experience.

Yet tentative grounds for hope are appearing as the defence minister, Igor Sergeyev, sets about the task of reforming the military with a determination all too lacking in the past.

Slowly but surely, the structure and size of the armed forces are undergoing change. According to the general staff, the army has been trimmed from 2.8m men in 1992 to 1.7m in 1996. President Boris Yeltsin confirmed last February that the aim is to reduce the army to 1.2m by the end of this year. The process of merging major branches of the military is also going ahead. Air force and air defence forces have been brought together, as have the three components of Russia's missile forces.

Mr Yeltsin is adamant that the bloated defence industry must also be reorganised and cut down so that it can operate more efficiently and produce military goods capable of winning a permanent share of world markets. Military exports currently earn about \$2bn-\$3bn a year.

The prospects for advancing reform were improved in early March when Andrei Kokoshin, a liberal-minded civilian specialist in military affairs, was appointed as secretary of Mr Yeltsin's Security Council. The council advises the president on all matters relating to Russia's internal and external security, but Mr Kokoshin is expected to give special attention to domestic military reform.

He became involved last year when, as a chief military inspector, he was charged with making a complete inventory of the army's supplies. As Mr Yeltsin later observed, "for the first time in 80 years we actually know what the military has".

Political analysts hope that, halfway through Mr Yeltsin's second term, military reform may finally get into full swing. "Sergeyev is the first minister really to be serious about military reform," says Andrei Piontkovsky, director of the Strategic Studies Centre in Moscow.

As was shown by a recent incident in Khimki, just outside Moscow, the challenges facing the reformers are formidable. So desperate were 60 homeless army officers that they stormed a new apartment building in the town and installed their families in it. Yet they represent only a fraction of the tens of thousands of officers and soldiers who lack decent housing.

The grim conditions awaiting conscripts are the main reason why, according to the defence ministry, about 30,000 young men dodged last year's spring draft. Only about 20 per cent of the potential catchment joins up each year, compared with 60 per cent in Soviet times.

Conscripts face hunger, brutality and a culture of crime which, as during the disastrous 1994-96 war in Chechnya, includes trading in weapons and ammunition. According to Nikita Chaldamov, a member of Russia's presidential commission on human rights, 974 servicemen were killed in various peacetime incidents between January and September 1997, – of these 314 were suicides.

Mr Yeltsin made an election campaign pledge in 1996 to abolish conscription by 2000, but it is already clear that the armed forces will not be able to meet this deadline. A bill that would provide for other forms of service is under consideration in parliament's defence committee, but the committee's chairman, Lev Rokhlin, wants to introduce changes. He would like conscientious objectors to work in army construction units where they would not use weapons.

The problem is that such units are notorious for their harsh conditions. Meanwhile, conservative military lobbyists continue to see no reason to abandon conscription, even though the performance of the poorly trained, demoralised conscripts in Chechnya suggested that the system no longer served a useful purpose.

Nikolai Mikhailov, a first deputy defence minister, says that the basis on which Russia's future professional army may be organised is visible in a peacekeeping brigade serving in Bosnia. The officers and men are paid the equivalent of about \$1,000 a month and are guaranteed trips home. As a result, the brigade has not experienced any incidents of bullying or desertion.

Yet funds allocated to the armed forces do not stretch far enough. Pay for most officers, men and civilian employees in the military is routinely in arrears by at least a month.

According to Pavel Felgenhauer, a defence analyst, one problem is that the defence ministry has many more men and women on its payroll than it has ever publicly acknowledged. Furthermore, funds earmarked for officers' salaries have often been used instead to pay for procurement, weapons research and development and the construction of defence installations.

But as Mr Sergeyev made clear during a recent inspection of the Urals military district, there is no alternative to reform. "Either we keep an army which is falling apart and a navy which is sinking, or we take extremely unpopular measures to optimise and reduce the armed forces," he said.

PROFILE **Vladimir Potanin**

Bank chief branches out

According to Vladimir Potanin, the concentration of economic power in the hands of a few Russian businessmen is extremely unhealthy – as a throw-back, he says, to the pre-revolutionary era, when the uneven distribution of wealth was at the heart of the communist takeover.

He is well placed to pass judgment. Speaking from an office that resembles a fin de siècle salon where bodyguards have replaced flunkeys, Mr Potanin himself is one of Russia's biggest businessmen and sits at the heart of arguably the most powerful of the country's financial industrial groups (FIGs), Interros.

The bank around which the group is built, Oneximbank, which has its fifth anniversary next week, is still scarcely recognisable as a commercial bank. It has a tiny branch network and few long-term loans to speak of. Its ascendance has come from speculating in short-term investments and using its influence to develop a vast portfolio of unrelated assets.

Mr Potanin says he wants Oneximbank to be "a universal bank, with a large number of subsidiaries or branches around the country".

But at present, the bank is universal only in its political and business influence. Over the past 16 months it has built up an astonishing network of businesses.

It effectively controls Sidanco, an oil company which has reserves that could be far higher than those of the western majors. It owns Norilsk Nickel, the mining company and, in association with US financier George Soros, it recently acquired control of the telecoms network Svyazinvest. It also owns newspapers, radio and television stations.

Mr Potanin makes no attempt to defend the business structure of his, or any other of Russia's FIGs. The role of their Asian equivalents, Japan's keiretsu and Korea's chaebol, in the recent Asian financial crisis certainly does not make the model one to follow.

But in a country with a byzantine political system, and limited access to capital and skilled labour, the evolution of such group structures is perhaps inevitable.

The primary role of the Asian conglomerate was to leverage its political connections – and Mr Potanin has these in abundance.

A graduate of the Moscow State Institute for International Relations, and once destined for a life in the elite Soviet diplomatic corps, Mr Potanin found that the collapse of communism opened up other opportunities for cashing in on his contacts. He started by forming Oneximbank, whose name is derived from its origins in import/export financing.

A stint as first deputy prime minister of the Russian government honed his political connections – something that appears to have paid off in Oneximbank's position as a large holder of non-interest bearing budget funds for the government and winner in a number of opaque privatisation auctions.

Accusations of favouritism have been thrown his way, and these may even have contributed to the recent political demise of Anatoly Chubais, another former deputy prime minister. Indeed, the cabinet changes may lead to the selection of a new set of favourites.

Nonetheless, Mr Potanin is busy constructing a longer-term strategy. He plans to develop Oneximbank's retail bank network, building up a steadier source of funding and he is confident that acquisitions will help achieve this.

"There is a huge potential for financial services in a lot of areas which are not really being served. The savings rate is very high, at around 27 per cent, but the population keeps it in the savings bank or in cash . . . there is enormous potential for channelling those savings through the banking system."

Mr Potanin says he intends to develop the business as a financial supermarket, along with sister company MFK Renaissance, an investment bank. The two companies are unconnected by direct ownership, but he plans to run them in a more integrated manner and says that a merger is possible at a later stage.

The new drive is to introduce foreign strategic investors into the group. Mr Potanin recently formed a new holding company for his media interests, Profmedia, and this is one area where he is looking for western expertise and hard cash. Norilsk looks like another area in which co-operation would bring returns. Sidanco recently sold a 10 per cent stake to BP.

This overseas co-operation should encourage Mr Potanin to introduce the western concepts of minority shareholder rights and shareholder value to a market that has seen little of such ideas. Indeed, the recent cancellation by Sidanco of an unpopular convertible bond issue can be partly attributed to an increased sensitivity to the attitudes of western investors.

But he makes clear there will be no outside investors in the bank, which is at the centre of the Interros web. So western influence looks unlikely to push him towards the fashion for breaking up conglomerates.

Simon Davies

PROFILE **Victor Korovin**

Quick to embrace reform

Uralmash, a flagship of Soviet industry, has a collection of photographs of all its directors since 1926. A couple, removed at the height of Stalin's purges, lasted only a few months. Victor Korovin, the company's general manager since 1992, has survived and prospered in Russia's painful transition from communism to capitalism.

Three years after it was privatised, Uralmash, which produces heavy machinery for oil, mining, and heavy industry, is in as good shape as could be expected in the new Russia's topsy-turvy economic landscape.

"You can't yet say it's a trend yet but I believe we are seeing the first timid steps to recovery," says Mr Korovin in his spartan office overlooking the sprawling Uralmash plant in Yekaterinburg.

In contrast to dozens of defence enterprises in the Urals industrial city with neither contracts nor money to pay their workers, Uralmash looks positively healthy. In an economy dominated by barter, where workers can go without salaries for months on end, it is "only" one month behind with its wage payments.

Uralmash owes its survival in part to the 46-year-old engineer's early restructuring efforts and his search for new business. The workforce is now down to 14,000 from 40,000 in 1990.

Last year the company achieved a net profit of $9m on sales of $183m although only 15 per cent of sales were paid for in "real money", with the rest paid in kind.

"We need to get to a normal situation where customers pay for goods and services with money and companies can meet their obligations with money," says Mr Korovin.

That is where government must step in, he says, and he predicts "another decade of painful reforms" before Russia becomes a "civilised country". Cutting a vicious circle of debt arrears between companies and between business and government will mean spending cuts and converting hidden unemployment into real joblessness – a daunting prospect when the creation of jobs is still hindered by bureaucrats and crime.

Another obstacle to growth, he says, is the high cost of money for the real economy, driven by excessive government borrowing to plug budget deficits. "Who's going to invest in Uralmash when investors can make much higher returns on government treasury bills?"

Mr Korovin believes his message is lost on a government which listens mainly to "bankers and businesses with lots of money".

He can hardly be accused of moaning, however. From the dawn of Russia's market reforms, he has stood out from most of the managers in charge of Soviet-era industry. An early supporter of price liberalisation and privatisation, he embraced the need for job cuts before most of his peers.

Since the company's privatisation in 1993, Mr Korovin has worked in harmony with shareholders, in contrast to messy disputes between managers and owners at other privatised companies – the result, he says, of legislation drafted in haste when crash privatisation was launched.

Earlier this year, he finally managed to offload on to the local government responsibility for 44,000 apartments occupied by Uralmash workers and pensioners. Run in the Soviet era by enterprises, these "social" assets have been a huge drain on company finances in the new Russia. Maintaining its housing stock cost Uralmash Rbs56m (new roubles) in subsidies last year alone.

In recognition of his ability, Mr Korovin was earlier this year appointed to manage a new holding company merging Uralmash with Izhorky plant in St Petersburg. The aim of the planned merger, which is to be implemented over the next six months, is to exploit synergies between the two companies, avoid duplication and cut costs.

Further job losses are also inevitable at both plants, says Kakha Bendukidze, the Georgian-born entrepreneur who is the biggest shareholder of Uralmash and the merger's architect.

New managers will be responsible for day to day management of the two companies while Mr Korovin's new role is to include "work with the government".

Although Russia's anti-monopoly committee is expected to approve the merger, Uralmash's biggest problem with the government this year is likely to revolve around its tax bill.

Mr Korovin says the government sacked by Mr Yeltsin last month lacked a consistent reform policy. However, the government was removed before Victor Chernomyrdin, the previous prime minister, was able to approve a deal which would have allowed Uralmash to offset against its tax bill Rbs204m (new roubles) owed it by the government for maintaining a state-owned defence factory on its premises.

Since it was hived off from Uralmash in 1995, Factory No9, which manufactures guns, has failed to pay either its rent or energy bills. And if the government sticks to its new policy of no longer allowing companies to deduct from their tax bills money owed them by the state, Uralmash will have to either pay its tax bill without compensation, or challenge the government's right to the money in court.

But despite Russia's, immediate challenges Mr Korovin remains bullish. "Foreign competitors that believe Russian companies will not be able to compete with them because of our economic crisis are mistaken. They're wrong to think only of the short-term."

Leyla Boulton

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PROFILE **Grigory Yavlinsky**

The relentless enthusiast

Grigory Yavlinsky, the leader of Russia's main liberal party, is the first to acknowledge that his chances of winning the next parliamentary and presidential elections in 1999 and 2000 respectively are, to say the least, slim.

Yet like many western European politicians whose parties have little or no prospect of topping the polls, his enthusiasm for the grand stage of politics remains undimmed, his passion for faster and more effective reform is authentic, and his diagnosis of his country's ills is usually precise and cogent.

"We still have no trade unions, no independent judiciary and no workable active political parties. We still have a big question mark over the free press and other civil institutions," says Mr Yavlinsky. "Instead we have some very strange flowers growing like monsters. Outside Moscow we have signs of a feudal system developing."

He adds: "We have low inflation, a low budget deficit, but we have almost no economic activity." This he attributes to the lack of political stability and reliable democratic institutions.

Mr Yavlinsky, a vigorous former junior boxing champion who speaks fluent English, has always been more popular in western financial and media circles than in Russia. He has played no real role in government since Mikhail Gorbachev, the last Soviet leader, decided against implementing his "500 Days" crash programme to convert the economy to capitalism in 1990.

In the 1996 presidential election, Mr Yavlinsky came fourth in the first round with 5.5m votes, or just over 7 per cent of all those cast. His result might have been better had the Kremlin not thrown support behind Alexander Lebed, a tactical move which ensured that the retired paratroop general finished third. Mr Lebed then switched his backing to Boris Yeltsin to guarantee the second-round defeat of the Communist candidate, Gennady Zyuganov.

In the next election, Mr Yavlinsky hopes to come at least third in the first round. Though he does not say as much, his aim appears to be to secure either a direct role in, or a large degree of influence over, the next president's administration. That would mean Russia moving on to a more explicit path of democratic reform than he believes has been the case during Mr Yeltsin's two terms since 1991.

Mr Yavlinsky was a fierce *opponent of the bungled* military intervention in Chechnya, describing the Kremlin's "party of war" which planned and carried out operations there in 1994-96 as "the bloodiest autocratic regime since the second world war".

As for Mr Yeltsin's physical and mental state, Mr Yavlinsky says: "Decisions, he is taking himself. The quality of the decisions is another matter."

Born in 1952 in Lviv, Mr Yavlinsky is an army officer's son who started work at 16 as an electrician and later graduated from the Plekhanov economics institute in Moscow. He was a Communist Party member from 1985 to 1991, the years *spanning Mr Gorbachev's* time as Soviet leader. But in August 1991 Mr Yavlinsky was at the "White House", the Russian parliament building, joining Mr Yeltsin in the suppression of a conservative Communist coup.

His political party, Yabloko (Apple), derives its name from its three founders in 1993 – Mr Yavlinsky himself, Yuri Boldyrev and Vladimir Lukin. It became the fourth largest bloc in parliament after elections in December 1995, having won 6.89 per cent of the vote, and it is dismayed by what its members see as the willingness of Mr Yeltsin's administration to cut deals with the larger Communist and Russian nationalist *factions*.

Referring to Anatoly Chubais and Boris Nemtsov, the previous government's most prominent reformers, Mr Yavlinsky says: "Last year ... we had a 'dream team' government for half a year until last autumn. But even under these conditions we had a fall in investment."

The problem, he says, is that Mr Chubais, the architect of Russia's privatisation programme, created a type of "bandit capitalism" that gave untold power and riches to a small group of unscrupulous tycoons who now see little reason to submit to demands for reform.

They may appreciate the eventual need for fair rules of competition in Russia, but they will not change as long as politicians such as *Mr Chubais remain in* Mr Yeltsin's inner circle of advisers.

As for Mr Nemtsov, brought to Moscow by Mr Yeltsin after a dazzling performance as a reformist in the provincial city of Nizhny Novgorod, Mr Yavlinsky says that when first in government he "had direct access to Yeltsin, but he didn't know what to do with this access. He's a provincial and Moscow immediately swallowed him".

Mr Yavlinsky fears matters could become critical unless far-reaching reforms start soon. "Revolution happens in Russia when you have a moral crisis," he says, pointing to the monarchy of 1917 and the discredited Communists of 1991.

"Now the people are not *interested in Yeltsin's* speeches or in what the government is saying or doing. It will be only a question of time, if there's a gap getting bigger and bigger between the political regime and society."

Tony Barber

PROFILE **Sergei Kiriyenko**

Neutral force in a seething cauldron

Boris Yeltsin loves surprises. Whether it is grabbing a conductor's baton to lead an impromptu concert while on a trip to Germany or playing "spoons" on the heads of visiting dignitaries, the Russian president likes to do the unexpected.

But even Mr Yeltsin *excelled himself last month* when he abruptly sacked Victor Chernomyrdin as his long-standing prime minister and named Sergei Kiriyenko as his replacement.

Unknown to some of his ministerial colleagues, let alone the general public, Mr Kiriyenko had only been working in Moscow for a year when he was summoned from the bowels of the dingy energy ministry building to run the biggest country in the world.

His appointment appeared to astonish Mr Kiriyenko as much as anyone else: the 35-year-old minister was forced to cancel plans to attend his daughter's eighth birthday party that day. *Later*, the unassuming Mr Kiriyenko was shown on the television blinking in apparent disbelief as he was *shown round his opulent* new prime ministerial office by Mr Yeltsin.

But, as so often with Mr Yeltsin, the choice reflected shrewd calculation as much as personal intuition. As a newcomer to Moscow, Mr Kiriyenko has so far made few enemies and is viewed as a neutral force in the seething cauldron of Kremlin politics.

"Kiriyenko is what they call a technocrat, an expert in management," Mr Yeltsin said in a national radio address. "*He is a* man who is not linked today with any political parties or movements. At the same time he is capable of conducting dialogue with anyone, he is ready to listen to the opinions of different sides. Some say: 'He is too young, he lacks experience of life. It is too early for him to rise that high'." Mr Yeltsin added. "I categorically disagree. Professionalism and stamina are not defined by your date of birth."

Mr Kiriyenko was born on 26 July 1962 in the Black Sea town of Sukhumi, now in the disputed Abkhazian region of the independent republic of Georgia. Soon after, his family moved to Gorky, later renamed Nizhny Novgorod, a closed industrial town in central Russia, where the gifted young Mr Kiriyenko started to shine.

"I am quite an interesting mix," he said, in one of his first television interviews. "My mother is Russian, my father was a Jew, the surname is Ukrainian and I was born in Abkhazia."

In some respects, this eclectic background made Mr Kiriyenko a classic "Soviet man" – as he readily admits. In his youth, he was a committed Communist and an active member of the Komsomol, the Communist youth movement, only later rejecting the "impractical" tenets of Marxism-Leninism.

Mr Kiriyenko remains entirely unembarrassed by his past political beliefs. "I did not do anything against my conscience. I sincerely believed in those ideals. It was only later that I understood that it was impossible to implement them."

The adaptable Mr Kiriyenko certainly showed a quick appreciation of capitalism when Russia stumbled towards the market in the early 1990s. In quick succession, he emerged as chief executive of the Garantiya commercial bank and president of Norsi-Oil, a big refining company, forging close ties *with Boris Nemtsov*, the reformist governor of Nizhny Novgorod.

When Mr Nemtsov was summoned to Moscow in March 1997 as first deputy prime minister, Mr Kiriyenko was quick to follow, becoming deputy energy minister later that year. In that role, Mr Kiriyenko impressed Russia's oil barons by his knowledge of the industry and won new friends in the far east by helping to ease the region's energy crisis.

Mr Kiriyenko's market-minded administrative skills – still rare in Russia's Soviet-impregnated bureaucracy – quickly drew him to the attention of the Kremlin. He was elevated to the post of energy minister in November 1997 entering the cabinet for the first time. Just four months later, he started running the cabinet, including his former patron, Mr Nemtsov.

Such a meteoric rise might have been expected to *engender bitter jealousies* among his colleagues but, so far, there has been no trace of them – in public, at least.

Mikhail Zadornov, finance minister, is complimentary about Mr Kiriyenko's abilities. "He is first of all a very professional man. He is a very good manager. And, without doubt, he knows how to work well with people."

But Mr Kiriyenko's greatest strengths may also prove weaknesses. His inexperience of Kremlin politics will limit his ability to get things done. His political naivety may yet antagonise the government's parliamentary opponents who have to approve his candidacy. His apparent integrity may offend Russia's powerful "robber barons", who regard ministers as their hirelings rather than as their masters.

Yet Mr Kiriyenko is not a man to be underestimated, as is shown by his two somewhat unlikely hobbies: mountain climbing and martial arts. As one TV commentator noted, a head for heights and the ability to deflect hostile blows are essential traits for any prime minister.

John Thornhill

THE KREMLIN INNER CIRCLE • by Chrystia Freeland

The first family jostles for position

Mr Yeltsin's entourage wields huge power, yet the president is still at the helm

The place in history books for President Boris Yeltsin as Russia's first democratically elected president is assured. But as his rule lengthens and his body weakens, Mr Yeltsin is reverting to an older, more authoritarian style of leadership. *Like the ageing tsars of* imperial Russia, or the geriatric general secretaries of the Soviet Union, he has become a ruler of vast legal authority yet one with an increasingly tenuous personal command of the details of governance.

This has allowed the growth of the power of the friends, family members and official advisers surrounding him. While unelected and, unlike senior government ministers, requiring no parliamentary approval, their influence on the president means these Kremlin courtiers often seem to have more political muscle than cabinet or top parliamentary officials. "Only four or five people have regular access to the president and this narrow group has tremendous *influence in the country*," says Lilia Shevtsova, an political scientist.

Yet the power of Mr Yeltsin's entourage is not absolute. Although visibly frail and prone to embarrassing public gaffes, Mr Yeltsin is still too powerful a leader to be reliably manipulated.

Instead, the presidential clique draws its strength from its ability to fill in the growing gaps in Mr Yeltsin's grasp of the details of Russian and world affairs. Through their control of his timetable and of the newspapers he reads and the television programmes he watches, the president's intimates exert huge influence over the fate of the country.

Chief among these Kremlin courtiers is Valentin Yumashev, a former journalist and ghost-writer of Mr Yeltsin's memoirs who has become a close family friend and head of the presidential administration.

As the liason between the president's close-knit family and the official Kremlin staff, Tatyana Dyachenko – Mr Yeltsin's younger daughter who has been appointed a Kremlin adviser – is one of Russia's most powerful women – a role which *emerged during the decisive* 1996 presidential election campaign.

Other influential figures include Sergei Yastrzhembsky, the suave Kremlin spokesman and foreign policy adviser, Viktoria Mitina, a family friend who has also been made a Kremlin official, and Alexander Livshits, a long-standing Yeltsin backer and former minister of finance, now the president's economic adviser.

But most significant may be Boris Berezovsky, a financier who briefly served in the Yeltsin government. Today, Mr Berezovsky occupies no state post but admits to close ties with the Kremlin entourage, describing himself as Mr Yumashev's "unpaid adviser" and a man who is listened to by Ms *Dyachenko*.

"Yumashev is an important interface between the president and the world," Mr Berezovsky said recently. "With regard to Tatyana Dyachenko ... I truly do have the opportunity to state my point of view."

But observers such as Sergei Markov, a respected political analyst, suspect that Mr Berezovsky's influence goes much further, viewing the former mathematician as a modern-day Rasputin, secretively manipulating the president and his entourage. Mr Berezovsky denies these charges, as he does the theory that he engineered last month's government dismissal.

According to Kremlin insiders, and given Mr Yeltsin's passion for being in charge, it is hard to accept the view of the president as a puppet in Mr Berezovsky's hands.

But observers keen to diminish his role as merely clever publicity are probably also wrong – as suggested by the former ministers who last month queued up to privately petition him for jobs in the new government.

As Mr Yeltsin ages and as presidential elections, scheduled for 2000 draw closer, the influence of his entourage can only grow. The most important issue in which they will have a voice is whether or not Mr Yeltsin decides to run for a third presidential term.

Many analysts believe that the president's family and friends are urging him to hang on, fearful for their personal power, safety and prosperity. But other advisers, notably Mr Berezovsky, have come out against a third Yeltsin term, arguing that the president is too weak to carry on.

To win over the Yeltsin clan, the powerful magnates who helped secure the president's victory in 1996 are already considering ways of offering the family financial and political security. "The *Kremlin circles want survival*. They want the process of succession to be stable and as far under their control as possible," says Sergei Karaganov, a Kremlin adviser.

Yet all these elaborate provisions and byzantine alliances can still be wiped out by the will of a single man. For all his frailties, Mr Yeltsin still enjoys the powers of an elected tsar with a penchant for destroying allies who become too powerful – as he did with last month's cabinet shuffle and with the painful dismissal of Alexander Korzhakov his best friend and bodyguard in 1996. In the most crucial moments, Tsar Boris rules alone.


Farmers in Kurilovo: a change in mentality is needed along with entrepreneurial new managers to bring about a renaissance in Russian farming Misha Japaridze/AP

AGRICULTURE • by Leyla Boulton

Wake up call for farmers

A land auction may provide the catalyst for change that is so badly needed •

Russian agriculture usually evokes a picture of slow change and endless subsidies. But last month, the country's sleepy rural scene was stirred by the most important event since the Bolsheviks eradicated private land ownership.

The Saratov region in south-western Russia held the country's first private land auction five years after the collapse of Communism.

"This sets a precedent for other regions to follow," says Vladimir Prokapchuk, deputy chairman of Saratov's land committee. "People don't need bureaucrats' permission to just take the land and work with it. At the moment we are just sitting on wealth which is not being exploited."

Last month's auction of 20 land plots including farmland is to be followed by further sales in the Saratov region this month, with the additional benefit of helping to fill the local administration's coffers. Other parts of the country, such as Tatarstan, want to follow suit.

The auction was important because private land sales have remained taboo in Russia even five years after the country launched its dash to a market economy and allowed farmers to own their own land.

The move had the blessing of President Boris Yeltsin, who last July vetoed a draft land code submitted by parliament because it did not allow for the development of a free land market. He sees private land ownership as crucial to the development in Russia of a strong farm sector and of free enterprise.

In theory, all Soviet-style collective and state farms have already been "reorganised" into privately owned legal entities. But on most farms "nobody has bothered to tell people that they've been privatised and they have a right to the land and property", says Chris Williams, manager of the agricultural reform programme run by the International Finance Corporation (IFC), the World Bank's private investment arm.

Communists and other conservatives fear that allowing free land sales will mean it will be swallowed up by speculators and foreigners. The Saratov region presented parliament with a fait accompli and established a legal mechanism for the sale and purchase of land.

Even the Saratov administration respected one enduring taboo by not allowing the outright sale of land to foreigners. Nonetheless the region, keen to attract foreign investors, says they can lease it for 50 years.

A free land market is only one of several requirements for revitalising a sector which, according to Anatoly Chubais, the former first deputy prime minister, costs the country $20bn a year in subsidies.

Unlike their well-subsidised counterparts in the west, Russian farms, squeezed for years by the Soviet drive for guns, cannot even put butter on Russian tables.

The IFC, which has worked to translate farmers' rights into reality at hundreds of Russia's farms, says a change in mentality is needed along with the encouragement of entrepreneurial new managers. It is also conducting a public information campaign to help change attitudes among farmers who form "the most conservative part of the population".

But before a renaissance of agriculture in Russia – a big exporter of grain before the 1917 revolution – can take place, attention needs to be focused in three further areas: rationalisation, finance and processing.

The need for serious restructuring of the sector was conceded by Victor Khlystun, the acting agriculture minister, who last year outlined government plans to split farms into three categories: those that are insolvent, those that may or may not be insolvent and farms needing medium-term help to thrive in the longer term.

Whether the new government will act on these findings in allocating future subsidies remains unclear. But one change is aimed at making the allocation of such hand-outs more efficient. From this year, it has handed over distribution of state farming loans to 12 banks to replace the two institutions which monopolised the process in the past.

The idea is that the newly created Association of Banks in Support of Agrarian Reform in Russia will find more efficient ways of distributing the money, despite the fact that the banks themselves are not taking on any risk.

While private ownership is advancing, Russia still lacks mechanisms allowing farmers to mortgage assets to guarantee loans. Apart from keeping up subsidies, the government says it also wants to develop leasing of farm equipment.

The IFC argues that the clearer ownership structure emerging in some farms is already making them ripe for private investment. "Now investors are interested in working with reorganised farms," says the IFC's Mr Williams.

He refers mainly to foreign processing companies needing reliable domestic supplies of raw materials to expand production in Russia. He cites the example of Campina, a Dutch company looking to secure milk supplies to manufacture yoghurt.

The company imports 50,000 tonnes of yoghurt a year but wants to start production in Russia to avoid hefty import duties. "For this you need reliable supplies of high-quality inputs," says Mr Williams. Precedents for this range from Moscow's many McDonald's fast food restaurants, which use Russian beef, to attractive new Tetrapak cartons, selling Russian milk under the brand name "33 Cows".

Russian agriculture

Table compares 1991 (the last year Russia was still part of Soviet Union before launch of radical market reforms in January 1992) to 1996.

	1991	1996
% of population living in rural areas	26	27
Total land under cultivation (ha m)	115.6	99.6
Land under wheat cultivation (ha m)	23.2	25.7
Land under potato cultivation (ha m)	3.2	3.4
Meat produced (tonnes m)	14.5	8.5

Source: Goskomstat

TAX COLLECTION • by Leyla Boulton

Hard times for Russia's taxmen

The government is only just starting to tackle raising more cash from taxpayers

"Lost your appetite for sex?" asks a voice, as a man in bed fidgets restlessly with a light switch. "Then pay your taxes, and sleep well at night." Thus runs a Russian television ad exhorting people to pay their taxes, the latest in a belated series of government efforts to improve tax collection.

Last year, the government had to cut back its spending plans after collecting little more than half its planned tax revenues. The International Monetary Fund temporarily suspended payment of instalments of a $10bn loan out of concern about Russia's poor tax collection.

"The only thing that should matter for the government is to collect taxes," says Sergei Aleksashenko, the first deputy governor of the central bank. Mr Aleksashenko, part of a team of young reformers in charge of the bank, can pride himself on the fact the bank has stopped its old inflationary practice of printing money to pay the state's bills.

But the government is only just getting to grips with the challenge of raising more money from taxpayers and borrowing less from Russia's financial markets.

The problem is new to a country which a decade ago had no need for a tax system or a currency because it operated as a state-owned economy closed to market economics.

In modern Russia, improved tax collection is crucial not just to millions of state employees who are not being paid as a result of holes in the national budget. It is also important for curbing heavy government borrowing that is driving up interest rates.

Mikhail Zadornov, acting finance minister, says collection has improved over the past year but remains at unsatisfactory levels. However, he says the government is tackling the problem on three fronts.

First, it has stopped accepting tax "offsets" – the practice of allowing companies to deduct from their tax bills money owed by the state – as a legitimate form of payment and was insisting on "live cash".

Although this will initially mean a nominal fall in tax revenues – tax offsets accounted for one-quarter of all revenues last year – the policy will make it easier for the government to pay its own bills. "Our principled position is that we must eliminate tax offsets to increase the live cash that is coming into the budget," he says.

Second, the government will cut back on tax concessions to individual companies. "We have practically entirely eliminated the privileges and deferrals granted to individual tax payers," Mr Zadornov says.

Third, the finance ministry has reduced the beneficial tax treatment accorded to favoured regions and closed cities. "Last year, some regions such as Yakutia and Ingushetia were put on an equal tax basis with other regions. That will also give us additional revenues."

Closer supervision and control is to be imposed on the biggest tax-paying corporations, such as Gazprom, the UES electricity utility and the biggest transport and oil companies. Tax inspectors will monitor these companies' payments on a monthly basis. "There is not only a stick, there is also a carrot," Mr Zadornov says.

The new budget law has greatly reduced late tax penalties and one provision enables companies to reschedule their accrued tax debts if they pay their current taxes on time. In some cases there will be a mutual settlement of debts between these companies and the government.

Mr Zadornov says the regime will be simplified and strengthened by the adoption of the new tax code which he says he hopes parliament will pass by July, enabling the government to plan next year's budget on a fresh set of assumptions.

The government has already launched a publicity drive to encourage tax payers to submit their tax declarations on time this year. Last year, only 1.2m people – or 2 per cent of the active workforce – filed tax returns. Mr Zadornov hopes that figure will be at least twice as big this year.

It will be an uphill battle. As one comedian put it, "the government jokes with us by asking whether we will pay taxes and we joke back saying of course we will".

"Everybody is trying to avoid paying taxes," says Vladimir Potanin, head of the powerful Oneximbank financial and industrial holding company. "Some institutions are doing this using legal means and the inefficiency of the our tax laws and others are simply not paying anything at all."

Rarely have solutions to a problem been so clearly recognised yet so tough to apply successfully in practice. The system "should be transparent and applicable to all", says Mr Potanin, who complains that tax collectors sporadically pick on a few big companies to pay their taxes and "forget about the rest of the country".

Boris Fyodorov, the former finance minister who is angling for the job of chief tax collector, says what is needed is "a sensible lowering of the tax burden and then to hit hard and put non-payers in prison".

He praises the new tax code for simplifying the present system, and the government's adoption of more realistic spending plans, as steps in the right direction.

But like many of the government's critics he believes that political will is the most important ingredient for cracking down on corruption, the biggest obstacle to improved tax collection.

"The bankers tell me that for $10,000, you can solve any problem with the tax system," says Mr Fyodorov. "People see tax collection as a job where you don't get a huge salary but you get lots of benefits."

THE OIL INDUSTRY • by Simon Davies

Price slump a catalyst for reform

Oil companies are being forced to look at corporate structure, costs and efficiency

The collapse in the oil price that is squeezing profitability – in an industry which accounts for about 15 per cent of Russia's gross domestic product and half of its stock market value – could be of considerable long-term benefit to the sector.

The oil companies are being forced to address the crucial issues of cost efficiency and corporate structure, which will need to be resolved if they are to attract the levels of cash required to exploit Russia's vast natural resources.

"The crisis of the oil price will stimulate companies to work faster on restructuring," says Eugene Schvidler, chief financial officer at Yuksi, the newly formed Russian oil group.

The industry is still struggling to recover from the impact of its hurried privatisation. In their desire to prevent any turn in the tide of democracy, the first democratic governments broke up the monolithic Russian oil industry into tiny fragments, such as individual oil wells and refineries.

Over the past five years the industry has been attempting to rebuild more efficient structures – a process that needs to be accelerated.

A number of problems need to be addressed in the process of rationalisation.

First, there need to be fewer, bigger oil groups. The decision of Yukos and Sibneft to merge into Yuksi, has put pressure on smaller competitors. Sidanco and Lukoil have held talks – although no agreement has been reached – and a number of smaller operators are expected to be mopped up.

There is also pressure to integrate the oil giants' myriad subsidiaries and associates – many of these groups are still merely holding companies.

The ongoing sale of Rosneft, the last of the government's large oil interests, should accelerate this rationalisation process. Rosneft will almost certainly be combined with existing oil groups, most of which have expressed an interest in bidding.

Such changes should then enable these groups to maximise the benefits of the next phase of evolution, bringing in western partners to provide hard cash and expertise.

Yuksi recently offered a 5 per cent stake to Elf Aquitaine, at a 40 per cent premium to the Russian group's share price – with the potential for an increase after the shares get an overseas listing.

Nonetheless, valuations for these companies, whose oil reserves dwarf those of most of the world's oil majors, are being held back by the lack of transparent structures.

The industry also needs to focus on costs. It has gone some way towards achieving western cost standards. Most of the large state oil group have been passed on to large financial industrial groups, which have not been loath to strip out labour costs.

"Russian oil companies have focused heavily on costs, because the tax system is revenue based, and so it provides a significant incentive for cost cutting," says Peter Houlder, managing director of the Russian investment banking and consultancy company CentreInvest. Since revenues are taxed, the benefits of rationalisation go straight to the bottom line.

Yuksi's recent agreement with Schlumberger of the US to outsource a slice of its $2bn-a-year oilfield services costs to a new joint venture company looks like a step in the right direction. The new alliance will take on services at a number of Yuksi's existing oil fields in Russia, and Yuksi claims it will compete for business from other Russian oil groups.


Focus on costs: Victor Kazakov (right), deputy chairman of Yuksi, Russia's largest oil company, looks on as Euan Baird, CEO of Schlumberger, the US oil services company, signs an outsourcing agreement Roberto Matthews/AP

But the industry has been held back by wider problems stemming from the unravelling of more than 70 years of Communism.

The birth of democracy led to the creation of independent companies, but it has been hard to make these companies abandon the social responsibilities they carried under the previous regime.

Mr Schvidler argues that this is changing. "The local politicians understand what is going on, they understand that we cannot operate at a loss. Municipalities now have to take control of kindergartens and municipal housing."

There are also the problems of getting paid in an economy which is starved of cash. According to Mr Houlder, up to 90 per cent of domestic payments for the oil industry are settled by barter – oil bills are off-set by electricity costs or even taxes. This is clearly an hindrance to efficient management.

Another problem lies with the inefficient and costly Transneft, the monopoly state-owned pipeline company, which is holding back oil exports.

Taxation hits the sector hard. Due to the extent of the government's tax collection problems, the oil industry is disproportionately picked upon, providing about one quarter of the federal government's total tax revenues.

The falling oil price may have adverse affects on the industry, forcing companies to shut production from less profitable oil wells. Yuksi has said it expects to cut production this year by up to 5 per cent.

But the industry is optimistic about the appointment of Sergei Kiriyenko, former energy minister, as the new prime minister.

"The new prime minister is very sensitive to the issues of our industry," says Mr Schvidler. "So the political changes should make it easier to get tax concessions."

THE ENVIRONMENT • by Leyla Boulton

Fight against a poisoned legacy

Despite signs of change, ecologists face a horrendous task in cutting pollution levels

Few environmentalists would see an explosion in car ownership as good news for the environment or view climate change as irrelevant.

But Alexei Yablokov, Russia's leading ecologist, believes both these things are true in a country that has been turned into an ecologist's nightmare by 70 years of ruthless Communist industrialisation and where environmentalists are "struggling for survival".

Despite the fact that Moscow's congestion and exhaust pollution now rivals that of Paris or New York, the increase of private cars on the streets of Moscow is a sign of the emergence of a middle-class – something that is essential for the support of a strong environmentalist movement.

"We don't have the mass support of the population," says Professor Yablokov, who was dropped from Russia's National Security Council last year as the top Kremlin adviser on ecology and radioactive safety. "For ecological organisations to exist, we need elementary funds."

Worries about global warming – so fashionable in the west – pale into insignificance, he says, alongside more immediate threats from water pollution, and radioactive waste from nuclear power plants, weapons and submarines.

The bright spot in Russia's industrial collapse in the 1990s is that it has reduced pollution from factories that once pumped heavy metals, oil and other pollutants into land, water and air with few controls.

In addition, the veil of secrecy surrounding the country's environmental health during the Soviet era has been torn down.

Nevertheless, Professor Yablokov worries that attempts are being made to rebuild it. Last November, for instance, a spokesman for the Russian Atomic Energy Ministry alleged that laws banning the classification as secret of ecological data were introduced to aid foreign intelligence services.

Professor Yablokov, who has sued the same spokesman for accusing him of unpatriotic behaviour, has also criticised the Russian government for creating new "secret" areas that are off-limits to foreigners and most Russians.

In addition, the burst of ecological consciousness among politicians under Soviet president Mikhail Gorbachev in the late 1980s may be on the decline. "This [issue] is not a serious concern for the leaders of the Russian Federation," says Victor Danilov-Danilian, head of Russia's Environmental Protection Committee. The committee lost its status as a ministry in 1996.

But anecdotal evidence suggests that the public is becoming more aware of ecological issues. The word ecology is raised more frequently in conversation while advertisements boast the environmental merits of everything from sausage to mineral water.

Another source of optimism for environmentalists has been the Russian courts' defence of the environment. Earlier this year, the Supreme Court declared a dozen government logging permits illegal because they had not been preceded by an environmental impact assessment.

Also this year, the Moscow electoral commission was forced by a city court to allow environmentalists to collect 100,000 signatures for a referendum on whether the city should plant two new trees for each one it uproots.

Mr Danilov-Danilian says that the post-Soviet era has seen a big improvement in the authorities' ability to enforce environmental legislation. He says 60 per cent of the 250,000 violations of environmental legislation discovered by authorities last year were rectified, although another 40 per cent "were not stopped".

Russian companies confirm they have faced a big increase in penalties – although they often claim a lack of cash with which to pay environmental fines.

In an economy which still operates largely through barter or the accumulation of debts, lack of cash is also what prevents Russia's richest industries – and among its worst offenders – from introducing environmental improvements. In oil production, for instance, pipes continue to leak oil into the ground and water at alarming rates.

Some companies have been forced to make their operations more environmentally friendly. Uralmash, the Soviet Union's biggest heavy machinery plant that was privatised in 1993, has held its energy bill over the past four years at 22 per cent of its total costs, compared to a 41 per cent level it would have reached had the company done nothing.

It has also stopped dumping oily wastes into the local Iset river, having set up a biological process for breaking them down. Finally, it is about to put on stream a new water treatment plant to clean up supplies to the homes of Uralmash's 14,000 workers.

Alexander Zhernakov, operations manager at Uralmash, says the company was forced to make big improvements in energy efficiency in the wake of huge price increases made by monopolistic utilities.

The environmental problem of greatest concern to most Russians is the pollution of water supplies. A recent straw poll of the inhabitants of Yekaterinburg, home town to both Uralmash and President Boris Yeltsin, produced unanimous agreement that poor water was the country's most pressing ecological problem today.

Cleaning up the water supplies will depend on whether people can be persuaded to pay more for their water in order to fund new treatment plants. "If people have to choose between bread today and clean water tomorrow, they will choose bread today," says Mr Danilov-Danilian.

But some of the residents taking part in Yekaterinburg's straw poll – said they would be prepared to pay more "for quality".

A pioneer in testing this proposition is St Petersburg's water and sewerage utility, which is struggling to finalise a loan from the European Bank for Reconstruction and Development to help revamp the city's dilapidated water network.

Although St Petersburg authorities have agreed to underwrite the loan, the EBRD has set two other conditions for the loan. It is demanding not only a timetable for tariff increases but payment guarantees from Russia's finance ministry in case state-owned institutions fail to pay their bills.

Troubled waters: a local resident with fish which he caught in a polluted lake in the industrial town of Dzerzhinsk, about 400 kilometres east of Moscow. In a report published last year detailing dioxin pollution in Russia, Greenpeace, the international environmental organisation, named Dzerzhinsk as the site of the country's worst chemical pollution and identified its nearby lake as the most poisonous in the world *Sergei Karpukhin/AP*

THE REGIONS: THE KUZBAS • by Chrystia Freeland

Disenchantment takes root

Miners whose protests helped oust communism are still waiting to reap the rewards

In 1989, the Kuzbas and its militant miners seemed to represent all that had been wrong with Soviet communism and symbolise what could be right with Russia if communism was swept away. Their protests hammered one of the final nails into the coffin of the USSR, which could not bear the opposition of the proletariat it was pledged to defend.

The Kuzbas miners were also one of Russian President Boris Yeltsin's most important early allies, in the dying days of the Soviet Union when the robust Siberian politician was the hero of Russian democrats. Nearly a decade later, the Kuzbas is gravely disenchanted with the revolution it helped set in motion.

"We supported Yeltsin, our union supported him, and we supported Chubais [the radical market reformer sacked from the cabinet last month] too," says Vitaly Makarov, head of the Komsomolets mine local of the Independent Trade Union of Coal Miners, the anti-communist trade union most vocal in supporting the 1989 democratic revolt. "We hoped for improvements. But today, many people feel deceived. Life has just got worse.".

In the gritty Kuzbas, it is easy to understand the miners' disenchantment. The economic mainstays of the region – coal mines and the metals industry – were the stars of the rough Soviet economy; but the obsolete mills and poorly out-fitted mine shafts are the unwanted step-children of the sleeker, more efficient capitalist system the new Russia is trying to build.

Never a land of milk and honey, the Kuzbas has become a harsher place in which to live over the past decade. Its snow black with coal dust in the seemingly endless Siberian winters, its people housed in decaying, concrete bunkers, its most important factories on the edge of bankruptcy, the Kuzbas is the dark side of post-Communist Russia.

And while the spoils of capitalism that glitter on the streets of Moscow have largely passed the Kuzbas by, it is rich in the malignant products of Russia's market transition, with crime among the region's fastest growing sectors.

Remote mining towns of the region, such as Leninsk-Kuznetsky, whose mayor is under arrest and facing criminal charges, have a horrifying murder rate: With a population of 140,000, an average of two people a week were killed here last year.

Aman Tuliev, the charismatic leftist leader who was elected governor last autumn with nearly 95 per cent of the vote, admits that the Kuzbas is a dangerous place to live. "Crime and corruption have reached dimensions unheard of in any region," Mr Tuliev said in a television interview shortly after he took office.

Confronted with the traumas of market transition, combined with the sort of economic obsolescence even mature capitalist countries such as the US and the UK have found difficult to manage in their own fading coal regions, the leaders of the Kuzbas are struggling for solutions.

In Leninsk-Kuznetsky, for example, Bakhtiyar Mamayev, the acting mayor, is trying to find jobs for those laid-off by the decaying coal industry.

A well-educated, westernised former Moscow banker, Mr Mamayev radiates good intentions. But it is hard to see how his plan to invigorate a moribund textile factory through investments from the city's impoverished treasury will work. Even if his scheme meets with initial success, it will be hard for textiles produced by the remote assembly lines of the Kuzbas to compete with Asian imports, which have largely wiped out the Russian textile industry.

In Kemerovo, the regional capital, the authorities have another idea – to promote small businesses able to employ people sacked by unprofitable coal mines or steel mills. "There will be massive closures of the coal mines, and so we must find new jobs, jobs which will help change the structure of the economy," says Sergei Berezniev, deputy governor of the region.

But Mr Berezniev admits that the bureaucratic legacy of the old system and the corruption of the new economic order have created an obstacle course for would-be entrepreneurs that the local government has not yet succeeded in dismantling. He says that to register a new business requires "about 40 signatures" from various apparatchiks.

This bureaucratic nightmare "thwarts our development", he says. "This is the main complaint of our entrepreneurs. They say that by the time you walk through all the necessary corridors, your desire to open a business has vanished."

But for all its difficulties, some western investors see hope for the Kuzbas. Jonathan Thompson, a South African consultant who advises Kuzbasprombank, the region's largest bank, believes that the Kuzbas's high-quality reserves of coal, particularly coking coal, which can be exported, and some of its metals industry, contain the seeds of an economic renaissance.

For now, though, Mr Thompson believes the potential of the Kuzbas is constrained by the web of non-payments ham-stringing the entire Russian economy. In the local version of this vicious circle, the struggling metals plants do not pay the regional utility for their electricity, and the utility, in turn, does not pay the coal mines, who do not pay their workers.

But as the Russian economy is slowly resurrected, Mr Thompson thinks the Kuzbas will pick up too. "It is a world class coal basin, but its potential is now obscured," he says. For the depressed Kuzbas miners, who have helped one way of life disappear but have not yet seen a better one emerge, Mr Thompson's promised renaissance cannot come soon enough.

THE REGIONS: NOVGOROD • by John Thornhill

Investors drawn to local dynamo

A pragmatic approach has won the province much foreign interest

In the Kremlin museum in the ancient city of Novgorod stands a colourful exhibition celebrating the 1917 Bolshevik revolution.

Alongside it is a simpler – though more moving – display illustrating the lives of those Novgorodians who were repressed in Stalinist times. "People, we appeal to your memories, to your hearts. Do not allow their fate to become your fate," the inscription runs.

The juxtaposition of exhibitions sums up the spirit of modern-day Novgorod. While the city does not wish to deny its past, it aspires to a better future. "We are not reds or whites but Novgorodians," is the constant refrain of Mikhail Prusak, the region's 38-year-old governor.

A small, moustachioed dynamo of a man, bristling with energy and purpose, Mr Prusak has succeeded in turning Novgorod into one of Russia's most vibrant economic regions and a magnet for foreign investment. A recent award from the American Chamber of Commerce proclaiming Novgorod to be Russia's most attractive investment region hangs prominently on Mr Prusak's office wall.

By the end of 1997, Novgorod had attracted 179 foreign companies to the north-western region making investment commitments of $490m. These collaborative or stand-alone ventures now account for 40 per cent of Novgorod's output and more than 83 per cent of its exports. That compares with 3 per cent and 9 per cent respectively for Russia as a whole.

Mr Prusak, who was appointed by president Boris Yeltsin in 1991 and was then elected governor in 1995, says he has always tried to follow a consensual path spreading the region's economic benefits as widely as possible. "It is only in politically stable regions that you can have economic success," he says. "And when a person receives property then he gains responsibility."

That ethos of pragmatic compromise is reflected in the local parliament, the Duma, where the deputies do not boast any allegiances to national political parties.

Anatoly Boltsev, the Duma chairman, says all 26 elected deputies share Mr Prusak's forward-looking views and are happy to provide firm legal underpinnings for the reform drive.

"The euphoria of the political freedoms of 1991 has disappeared and we are now more interested in strengthening our economic interests," he says. "This is not a time for slogans but for decisions which will put food on our tables. If you spend too much time arguing then you do not have enough time left to work."

It certainly was not obvious in 1991 that Novgorod would flourish as Russia's market economy developed. The region lacked rich natural resources and its economy was heavily reliant on a dozen electronic plants linked to the collapsing military-industrial complex.

Vassily Ivanov, chairman of Novgorod's economic committee, says the region's economic radicalism was born of financial necessity: it had no alternative but to generate its own economic wealth and exploit its strategic location between Moscow and St Petersburg.

Novgorod therefore adopted a three-pronged strategy to develop the local economy. First, it set about creating a favourable environment for investment, which it realised would initially come chiefly from abroad. One of the main measures was to give investors a tax break until their project turned a profit. So, for example, Cadbury Schweppes, the British confectionery group, which opened a $120m chocolate plant in nearby Chudovo in 1996 will not have to pay local taxes until 2001.

Second, the region set about encouraging the creation of small businesses which could absorb the workers laid off by declining industries. "The administration is here to serve and help business," Mr Ivanov says. "But already these small businesses give the budget as much tax as the old dying electronic defence plants."

Third, the Novgorod administration realised it could mobilise the region's own financial resources more effectively. Market research showed the region's population saved up to 25 per cent of its income but did not trust banks, which could recycle that money into the local economy.

However, the administration found that Novgorodians would be happy to spend more money on buying new apartments or improving their existing homes. So the government liberalised the real estate market and cultivated the home repair and construction industries, creating jobs and speeding up the circulation of money.

Yet Novgorod, like all Russian cities, still suffers from widespread poverty, bureaucratic frustrations, and wage delays. The city has not been able to pay some of its workers since February. A recent report from Credit Suisse First Boston placed Novgorod 44th among Russia's 89 regions in terms of its budgetary strength.

"Fiscal indicators, including revenues per capita, federal taxes paid per capita and the proportion of expenditures covered by its own revenues, are weak or below average," the bank's report concluded.

Mr Prusak concedes it will take time for the benefits of Novgorod's new investments to be widely felt but says the region is moving in the right direction. "Our people live poorly. But every year we will produce more and better goods which will enable people to increase their incomes," he says.

Moreover, Russia's regions, which arguably have more autonomy today than at any other time in their history, are starting to exploit their collective experience of market reforms.

"Novgorod is a small region by Russian standards but we are bigger than Denmark or Moldova. Russia is many different states in the same country," Mr Prusak says. "But every region is developing in its own way and we can all learn from each other. The main advantage in a market economy is intellect."

GUIDE TO MOSCOW • by John Thornhill

Rich food for the Russophiles

From the seedy to the sublime, the Russian capital has plenty to get excited about

City of arresting contrasts and contradictions: the daily mushrooming of new billboards are evidence of Mayor Yuri Luzhkov's brand of earthy capitalism *Nikolai Bolashev*

When the Marquis de Custine, a footloose French aristocrat, visited Moscow in the nineteenth century he compared the mystical city with one of those "romantic capitals of fabulous lands whose history is a poem and whose architecture is a dream".

Modern-day travellers to Russia, who have the misfortune of arriving at Moscow's Sheremetyevo-2 airport, are unlikely to share that immediate impression. Labelled – with much justice – the worst international airport in the world, Sheremetyevo-2 makes many first time visitors want to climb straight back on their aeroplane.

Long passport queues, dingy surroundings, surly porters and extortionate taxi drivers, are among the airport's chief claims to infamy. Ensuring that a friendly face meets you at the end of this arduous endeavour is an advisable arrangement.

But once the battered traveller arrives in the centre of Moscow, it becomes easier to understand what the exciteable marquis was on about. The first glimpse of the fabulous St Basil's cathedral illuminated against the night sky is enough to turn anyone into an instant Russophile.

Moscow is now – as it has always been – a city of arresting contrasts and contradictions. But Russia's pell-mell pursuit of capitalism only appears to have made them more extreme. Pitiable old babushki are to be seen selling their last belongings outside nightclubs for a few roubles while their granddaughters sell their bodies inside for considerably more. Sleek stretch limousines cruise along the same streets as rust-marked Ladas. Office buildings combine twenty-first century computer networks with nineteenth-century plumbing.

Some visitors suggest post-Soviet Moscow is reminiscent of 1980s New York combining an urban culture of fast living and high spending laced with a perpetual edge of danger. But for all travellers to Moscow the one incontestable impression is its expense. Business travellers and tourists can quickly gain the idea that they are regarded as little more than "wallets on legs".

Mayor Yuri Luzhkov's brand of earthy capitalism has unleashed a wave of economic activity – as is shown by the daily mushrooming of new billboards, kiosks, and shops. But this development has been tightly controlled by the city administration to the detriment of the free competition needed to drive down prices. You can be sure that any economic bottleneck or choke-point in Moscow city is under someone's control.

Whether it is the hotels, which often charge more than $250 a night, or rented apartments costing over $5,000 a month, Moscow now ranks among the most expensive cities in the world. Even the rickety taxi cabs outside the Slavyanskaya hotel demand $25 per trip, irrespective of distance and in defiance of the fact that local labour costs and fuel prices remain well below international yardsticks. Most museums and art galleries now operate dual pricing policies for Russians and foreigners.

That said, in spite of all the frustrations, an adventurous enough visitor is guaranteed an engrossing stay in what is one of the world's most vibrant and fast-changing capitals. There is something for everyone in modern-day Moscow from drugged-up hedonists at the notorious Hungry Duck bar to bow-tied aesthetes at the Helikon Opera.

The glory of Russian culture is on display in the churches and museums in the Kremlin, which dominates the centre of the city. The recently reopened Tretyakov art gallery also houses a vivid collection of Russian paintings while the more eclectic Pushkin museum exhibits modern European art.

The Bolshoi theatre, which stages classic Russian ballet and opera productions, appears to have lost its way of late and is sullied by tired performances and ticket touts – although it is still worth a visit. More lively concerts can generally be heard at the Moscow Conservatoire or the smaller Stanislavsky & Nemirovich-Danchenko Musical Theatre.

Moscow's wilder nightlife has exploded in the past few years with scores of clubs catering for every taste and sexual predilection. Their details can be found on Fridays in the excellent English language newspaper, the Moscow Times.

The restaurant scene has also grown far more varied in recent years, boasting every type of cuisine, from Japanese to Indian to Uzbek. There are some fine Georgian restaurants, ranging from the upmarket U Pirosmani, where clients have included Bill Clinton and Cindy Crawford, to the less formal Mama Zoya's and Guriya, which offer just as tasty food at a fraction of the price.

Good Russian cooking – consisting of soups and heavy meat dishes – can be surprisingly hard to find. The most enticing atmosphere is to be found in the Central House of Writers, the haunt of Moscow's literati, where an elegant – and expensive – restaurant now resides. Mass market Russian food – such as pirozhki (pies), salads, and vodka – can be sampled at the ever-widening chains of Russkoe Bistro or Yolki Palki eateries.

Getting around Moscow is a challenge. But with a good map, the extensive metro system can be mastered. There is also a growing fleet of yellow taxi cabs which – in theory at least – provide metered rides and standard fares. Muscovites might advise flagging down any passing car and offering the driver a few roubles for a ride. Most times this will be perfectly safe. But you would not dream of doing this in New York and should not do so in Russia.

Moscow is a lot less dangerous in reality than it is widely perceived to be abroad. But it does not make sense to take needless risks.

Guide for the visitor

Time: GMT + 2 hrs (GMT + 3 hrs from late March to late September)

Climate: Mean daily temperatures in Moscow range from -12°C in January to 18°C in July.

Entry requirements

Passport: required by all.

Visa: Entry and exit visas are required by all visitors and must be obtained in advance.

Requirements: three passport-sized photographs, photocopy of the first five pages of old-style passports or last two pages of EU passports and copy of invitation from company or sponsor, detailing name, personal details, passport number, time and purpose of visit.

Only certain institutions such as western joint ventures and Russian ministries may issue invitations. Allow at least 10 days for your invitation to come through from Moscow, and between six and 10 weeks for your visa application to be processed.

For a fee, travel agencies or services which specialise in obtaining visas can often secure visas much more quickly, sometimes overnight, and, at a higher price, some Russian embassies will process business visas within 48 hours.

Nationals of Cyprus do not require a visa.

Legislation passed in July 1996 requires foreign visitors planning to stay for more than three months to produce an HIV (Aids) test certificate in order to obtain a visa, and visa applicants must prove they have enough money to fund the visit.

If staying more than three days, visas must be registered through hotel or sponsor.

Cash: It is possible to withdraw money from automated teller machines using cards belonging to leading western networks.

Credit cards: Diners', American Express, Bank of America, Carte Blanche, Eurocard and AIT credit cards are accepted at main hotels.

Customs

Small amount of personal goods duty-free. On arrival declare all foreign currency and valuable items such as jewellery, cameras, computers and musical instruments. You will be required to fill out a customs declaration and it is vital you get this stamped and keep it in a safe place, because leaving the country without it can sometimes be difficult.

Health precautions

Mandatory:

Visitors from Asia, South America and Africa require a certificate for yellow fever inoculation. A cholera vaccination certificate is needed if coming from an area of infection. An HIV certificate is required for long-stay visitors only. If arriving at Moscow this is not usually demanded.

Advisable: It is advisable to be up to date for the following immunisations: polio (within 10 years), tetanus (within 10 years), typhoid fever, cholera (within six months), hepatitis A (moderate risk only).

Public holidays

Fixed dates: 1-2 Jan (New Year Holiday), 7 Jan (Russian Orthodox Christmas), 23 Feb (Defenders of the Fatherland Day), 8 Mar (International Women's Day), 1-2 May (May Day Holiday), 9 May (Victory Day), 12 June (Independence Day), 22 Aug (National Flag Day), 7 Nov (Anniversary of the October Revolution), 31 Dec (New Year's Eve).

If holiday falls on a Saturday or Sunday the following Monday is treated as a holiday.

Variable dates: Orthodox Easter.

Working hours

Business: (Mon-Fri) 0900-1730/1800 (appointments are best made between 0900 and 1000).

Banking: (Mon-Fri) 1000-2000. Moscow Sheremetyevo-2 airport 0800-2030 daily.

Shops: (Mon) 0800-1900, (Tue-Sat) 0800-2100.

Source: World of Information, March 1997

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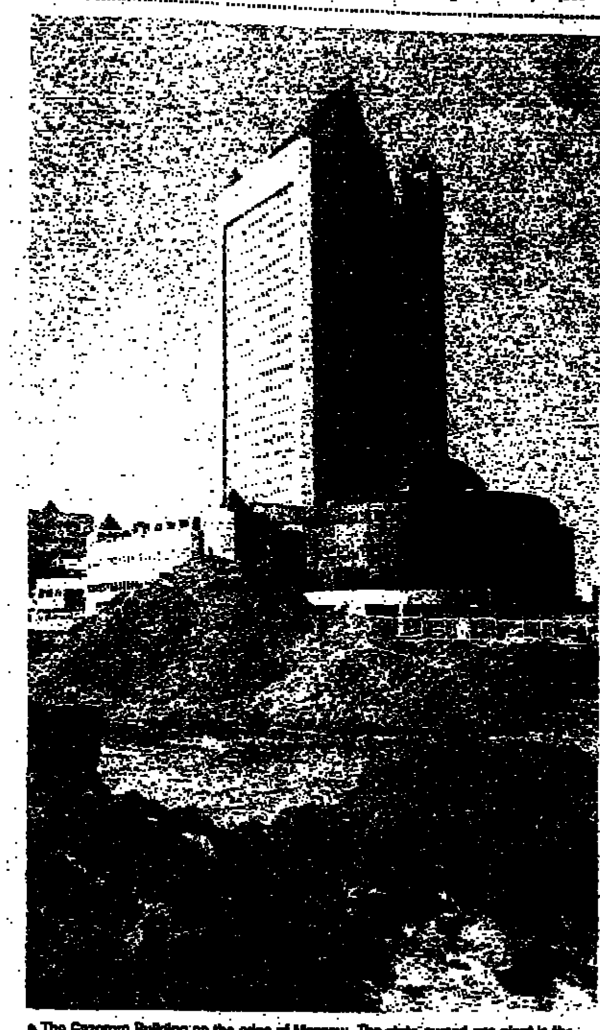
- Area: 17,075,400 sq km
- Population: 148,100,000 (Official 1996 est)
- Language: Russian
- Currency: Rouble (Rbs)
- Exchange rate: 1997 av $1 = Rbs 5.7854 April 6 1998 $1 = Rbs 6.1327

- Main cities and population (1994)

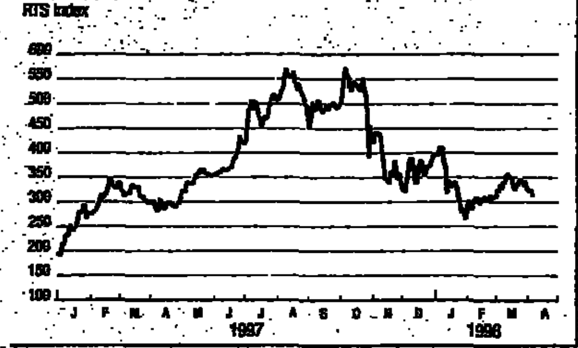
Moscow (capital)	8,793,000
St Petersburg	4,883,000
Nizhny Novgorod	1,425,000
Novosibirsk	1,418,000
Yekaterinburg	1,347,000



• The Gazprom Building on the edge of Moscow. The state-owned gas giant is the world's largest natural gas producer

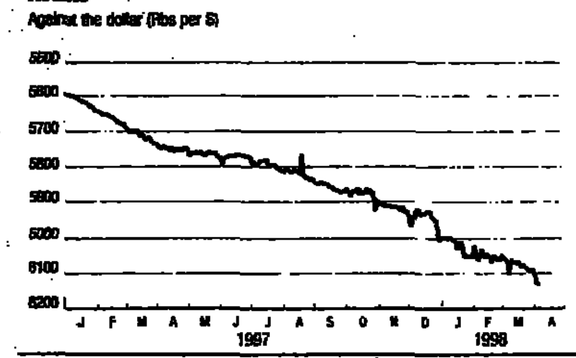
Russian stock exchange

RTS index



Rouble

Against the dollar (Rbs per $)



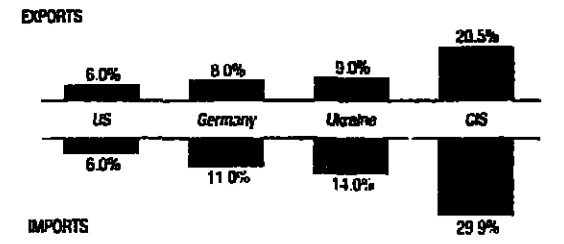
Constitution

- **Official name**
The Russian Federation/Russia
- **Legal system**
Federal state with republican form of government. A new constitution was adopted in a national vote on December 12 1993
- **National legislature**
The constitution created a two-chamber legislature: the lower house, the State Duma, with 450 deputies elected on a territorial basis; and the upper house, the Federation Council, with 178 deputies, two from each of Russia's 89 republics and regions
- **Electoral system**
Universal direct suffrage over the age of 18. Half of the State Duma members are elected from party lists, and half in a simple majority contest. A party failing to gain at least 5% of the total vote cannot win parliamentary seats. The Federation Council is composed of heads of regional executive and legislative bodies
- **National elections**
December 17 1995 (parliamentary) and June 16 and July 3 1996 (presidential); next elections due in December 1999 (parliamentary) and June 2000 (presidential)
- **Head of state**
The president, elected for a four-year term; currently Boris Yeltsin
- **National government**
The government is appointed by the prime minister, currently Viktor Chernomyrdin. The present government was formed in December 1992. Last major cabinet reshuffle, March 1997
- **Main political parties**
The Russian party political scene has been fluid, with a large number of parties and organisations.
The most important parties are: Communist Party of the Russian Federation (CPRF); Our Home is Russia (OHR); Liberal Democratic party (LDP), Yabloko; Agrarian Party of Russia (APR), Russia's Democratic Choice (RDC); The Women of Russia; Congress of Russian Communities (CRC)

Economic summary

	1998 (estimate)	1999 (forecast)
Total GDP ($billion)	468	495
Real GDP growth (annual percentage change)	1.0	3.0
GDP per head ($)	3190	3431
Inflation, year-end (annual percentage change in CPI)	11.5	10.0
Industrial production (annual % change)	2.0	4.0
Services output (annual % change)	0.0	2.2
Foreign exchange reserves ($bn)	14.6	17.0
Total foreign debt (percentage of GDP)	29.7	28.9
Current account balance ($billion)	-0.59	-3.04
Merchandise exports ($billion)	84.9	91.4
Merchandise imports ($billion)	-71.4	-78.4
Trade balance ($billion)	13.5	12.0

Main trading partners (share of total trade to world 1996)



• A teenager roller skates along a marble parapet on Manezh Square outside the Kremlin in Moscow

• Brokers trade shares at the Russian stock exchange in Moscow

• At a kiosk in Moscow's Gum shopping arcade, a woman examines a packet of foreign teas

Photos: Above: James Hill Below: AP (Oleg Nikishin, Alexander Zemlianichenko, David Brauchli)

Sources: Datastream/ICV; EIU

CHECHNYA • by Carlotta Gall

Losing the plot

Dangerously, a simmering problem has slipped down the political agenda

A year and a half after the war ended, Chechnya remains a simmering problem for Moscow. It has slipped way down the political agenda, not because the problem has gone away but because the Russian leadership is divided over how to handle the North Caucasus republic. The result is potentially dangerous: important issues are being neglected and relations between the breakaway republic and the Russian government are deteriorating.

Chechnya is looking more and more like what Moscow refers to as the bandit kingdom. Its government is virtually without income, 80 per cent of its population is unemployed, the crime rate has risen sharply and kidnapping has become big business. The men with power are the former fighters that have the biggest stocks of weapons.

Yet the Chechen leadership says that Russia is the dishonourable one, failing to bide by agreements and not lifting a finger to help rebuild the destroyed republic and its capital Grozny.

Russia, which since the war has pursued a policy of trying to woo Chechnya slowly back into the fold, is losing the desire to solve its most shameful headache.

Although President Boris Yeltsin supports the peace process, his interest has waned and his government has doggedly resisted co-operating with the Chechens. Almost none of the financial assistance ordered for Chechnya has reached Grozny and agreements on banking, customs and police co-operation have proved worthless.

Meanwhile the military cordon around the republic has been tightened and the belief that, once the Russian army is strengthened, it could return and defeat the Chechens once and for all is gaining currency in some government circles.

Increasingly, the Chechen leadership is turning away from Russia in frustration. President Aslan Maskhadov is embarking on a series of foreign trips to seek western understanding and investment, most recently to London where he met Baroness Thatcher.

At home in Grozny he has appointed as prime minister the notorious field commander Shamil Basayev – who is still wanted in Russia on terrorism charges – and given him broad powers to tackle crime and bring about economic stability. Both actions have irritated Moscow.

In the short term, the stalemate is hurting Chechnya more than Russia. After winning an extraordinary victory over the Russian armed forces, the Chechens seem to be losing the peace. The republic has de facto independence but is struggling to prove it can exist as a state. No country will recognise Chechnya's independence or help it with significant foreign investment until Russia does. Meanwhile Russia has an economic stranglehold on it.

However, in the long term, Russia looks like it will lose Chechnya forever. Leaving the republic to its own devices, with no assistance and no effective engagement, has only encouraged Chechnya to go it alone and gain full independence.

The peace agreement signed at the end of the war in August 1996 postponed the decision on status for five years until 2001 allowing time for emotions to cool. By then Russia will have a new president. At the present rate though, the two sides will have to fudge the issue for a further five years.

Amid the gloom there are some bright spots. The chances of renewed war are remote. Mr Basayev is adamant that it will not happen in his republic and the most gung-ho Russian minister, Anatoly Kulikov, has recently departed from the interior ministry.

Even more important, the oil that makes Chechnya of such strategic importance will continue to flow. Chechnya lies on the pipeline route that exports oil from Azerbaijan's offshore fields in the Caspian Sea to the Russian port of Novorossiisk on the Black Sea coast.

The Chechen government has wrangled with Russia over tariffs for the oil transported across its territory but it has kept to an agreement signed last autumn to guarantee the flow and the security of the pipeline.

The loser: leaving the republic to its own devices since the war has only encouraged Chechnya to go it alone Reuters

Mr Basayev himself is also seen as a cause for hope in Chechnya. The 33-year-old fighter turned politician is widely seen as the only man who can pull Chechnya back from the brink. When Mr Maskhadov named him prime minister in January Mr Basayev vowed to combat crime and kick-start the economy within six months. "I do not need more time than that," he says.

It may seem a foolhardy promise but, since Mr Maskhadov has proved largely ineffective in maintaining law and order during his first year as president, many are looking to Mr Basayev as the man to deliver Chechnya from lawlessness and economic hardship.

His reputation as a hero in Chechnya and a ferocious fighter will help in the war against crime and he is already claiming some success in his battle against kidnapping. He has boosted the security services but says he opposes public executions and wants eventually to abolish capital punishment. "Chechens do not need fear, they need order and equality before the law," he says.

When it comes to the economy Mr Basayev is turning out to be something of a reformer. One of his first moves has been to divide up Chechnya's state farms among former fighters and anyone else who wants to work the land.

With big industry and factories destroyed, his government survives on the revenues of the damaged state-owned oil business with minor contributions from the railway station and Grozny airport, road tax and levies from the Grozny market. In the end the Chechens know that they can only rely on themselves.

Time to recreate the state

Continued from page 1

One source of optimism is the gradual emergence of a few professional, independent and powerful state institutions.

The most impressive is the central bank. Its officials are well-paid and extravagantly housed – and thus far less susceptible to bribes than the rest of Russia's venal bureaucracy.

In sharp contrast with most of the machinery of the Russian state, which has a tsarist disdain for public opinion, the central bank has learned painstakingly to explain its policies to the people.

Another reason for hope lies the competition between Russia's most powerful financial and political clans. Often, as they did in the autumn of last year when the "bankers' war" was in full cry, these battles have the unfortunate side effect of creating political and economic paralysis.

However, in the medium term, their rivalries may make it more difficult for corrupt bureaucrats to play favourites.

Already, the feuds have fostered a healthy, albeit partisan, divergence of opinion in the Russian media. Now that the communist threat has disappeared, Russia's robber barons seem unlikely to back a single candidate in the presidential race in 2000, guaranteeing a further measure of political pluralism.

Most important of all, as the first, chaotic phase of Russia's post-communist transition draws to a close, the country's strongmen are beginning to crave political and economic stability.

This small group of bankers, industrialists and regional bosses hit the jackpot during the mass redistribution of wealth that followed the collapse of communism.

But now that the mass give-away – which future generations of Russia may well condemn as the rip-off of the century – is over, Russia's winners are desperate to fully legitimise their gains.

"It is unhealthy, but it is a historical legacy," Vladimir Potanin, head of Oneximbank, one of Russia's most powerful financial and industrial groups, says of the dominance a small group of companies enjoy over the Russian economy.

"What we have to do now is spread the wealth, think about creating a middle class."

There is, to be sure, more than a little hypocrisy in these claims. But even Russian liberals are beginning to believe that, as the era of looting draws to a close, Russia's robber barons can become allies.

"Some of the big companies in the country, some of the oligarchs, are prepared to say that this system is not stable, that we need fair rules of the game," says Mr Yavlinsky, an early critic of Russia's "criminal oligarchy".

"They want people to stop seeing them as bandits. They want to feel safe. They know that without structural reforms they will always be in danger."

The big test of the tycoons' political inclinations will be the presidential elections in 2000. In contrast with 1996, when Russia was divided between the communists and everyone else, 2000 will offer Russia the messier choices that are the more standard fare of democracy.

The potential candidates can already be roughly divided into three groups. Alexander Lebed, the former general, and Yuri Luzhkov, the powerful mayor of Moscow, are outside the ruling political and financial establishment.

They will seek to capitalise on popular dissatisfaction with a message of populism spiced with a few nationalist slogans.

Victor Chernomyrdin, the recently sacked prime minister, or even Mr Yeltsin himself, will be the standard-bearers of the current elite, unless the moguls manage to find a younger and more charismatic candidate.

And Mr Yavlinsky and Boris Nemtsov, the acting first deputy prime minister, would run on a more liberal ticket calling for deeper democracy and fairer capitalism.

Gennady Zyuganov, the Communist leader, is likely to run and even more certain to lose if he does.

With the exception of the two liberal candidates – neither of whom is viewed as a likely victor – it is not an inspiring field. The race, which has already begun to preoccupy the Russian elite, also presents some dangers.

As Russia's power-brokers throw themselves into backing the next president, political and economic reforms could grind to a halt.

More threatening, but less likely, is the possibility that Mr Luzhkov, currently the man to beat, might chose a rigidly authoritarian and nationalist path if he wins the Kremlin.

Yet the election also offers Russia an important opportunity to choose its destiny. For all their political isolation, one of the important powers Russia's citizens now do possess is the power of the ballot box and that is a lever they use most significantly in presidential elections.

But in order to use it effectively, they need institutions and leaders that are able to articulate the choice Russia faces – a choice between sinking into impoverished kleptocracy or striving to become a western-style democracy, with a liberal market economy.

Mr Yeltsin has already secured a place in the history books by emerging as a spokesman for Russia's desire to cast off the yoke of communism. The Kremlin chief now faces his final political choice and the one which may most shape his legacy.

He can devote his formidable energies to clinging to his throne and allow Russia to slide back into lazy authoritarianism. Or, just maybe, Mr Yeltsin will focus on posterity and use his vast presidential powers to give Russia one last push into the liberal, democratic, capitalist world which, for the first time in its history, is within reach.

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